

REPORT ON THE
BUREAU OF ALCOHOL, TOBACCO
AND FIREARM'S
FISCAL YEAR 1999
FINANCIAL STATEMENTS

OIG-00-091

JUNE 6, 2000



Office of Inspector General

United States Department of the Treasury



DEPARTMENT OF THE TREASURY

WASHINGTON, D.C. 20220

June 6, 2000

OFFICE OF
INSPECTOR GENERAL

MEMORANDUM FOR BRADLEY A. BUCKLES, DIRECTOR
BUREAU OF ALCOHOL, TOBACCO AND FIREARMS

FROM: Dennis S. Schindel *Dennis Schindel*
Assistant Inspector General for Audit

SUBJECT: Report on the Bureau of Alcohol, Tobacco and
Firearms' Fiscal Year 1999 Financial Statements

Attached are the Bureau of Alcohol, Tobacco and Firearms' (ATF) audited Fiscal Year 1999 financial statements. These financial statements, which are incorporated in the *Bureau of Alcohol, Tobacco and Firearms 1999 Accountability Report*, were audited by PricewaterhouseCoopers, LLP, an Independent Public Accountant (IPA), under contract.

In the Report of Independent Accountants, the IPA expressed an unqualified opinion on ATF's Balance Sheet as of September 30, 1999, and the related Statements of Net Cost, Changes in Net Position, Budgetary Resources, Financing, and Custodial Activity for the year ended September 30, 1999. The audit assurance achieved on these financial statements demonstrates ATF's continued commitment to sound financial management. In addition, the IPA's Report on Compliance with Laws and Regulations disclosed no instances of noncompliance.

The ATF, however, still faces challenges. The Report of Independent Accountants on Internal Control cited three reportable conditions also noted in last year's report. These conditions pertain to improving controls to protect information, strengthening ATF's system change control process, and improving controls over segregation of duties in the areas of system security and system administration. None of these conditions were considered a material weakness.

The IPA has issued two management letters that discuss various issues identified during the audit, but are not required to be included in the audit reports. The second management letter discusses various sensitive information technology issues, and accordingly, has a limited distribution.

As in the prior year, my staff monitored the conduct of this audit and performed a quality control review of the IPA's working papers. The audit was performed in accordance with *Government Auditing Standards (GAS)* as issued by the Comptroller General of the United States, and Office of Management and Budget Bulletin No. 98-08, *Audit Requirements for Federal Financial Statements*,

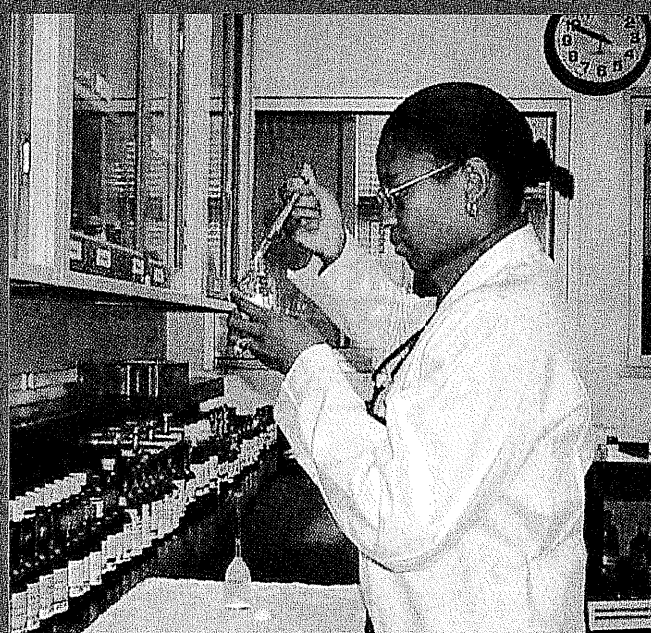
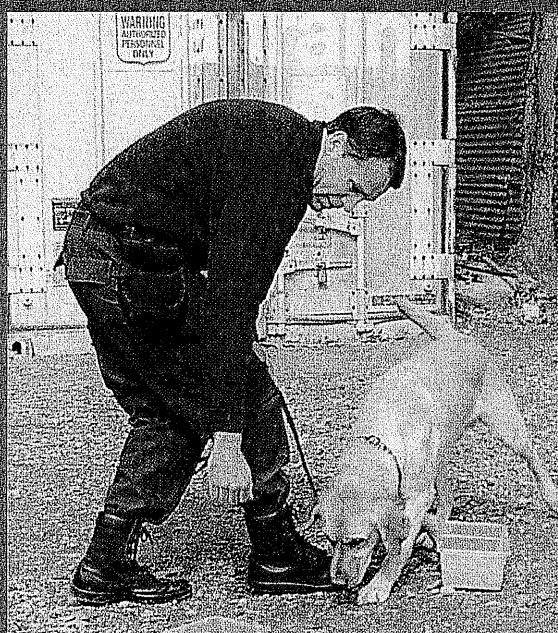
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as amended. In accordance with GAS, the IPA's reports are dated January 21, 2000, the last date of the IPA's audit field work.

Should you have any questions, please contact me on (202) 622-1090, or a member of your staff may contact William H. Pugh, Deputy Assistant Inspector General for Audit (Financial Management) on (202) 927-5430.

Attachment

Department of the Treasury
Bureau of
Alcohol, Tobacco and Firearms
Accountability Report
Fiscal Year 1999



**"Working for a Sound and Safer America...
...Through Innovation and Partnerships"**

Department of the Treasury



**Bureau of
Alcohol, Tobacco and Firearms
Accountability Report**

Fiscal Year 1999



Executive Summary

This report marks the fifth year that the Bureau of Alcohol, Tobacco, and Firearms (ATF) has prepared an Accountability Report. PricewaterhouseCoopers LLP has issued an "unqualified opinion" on ATF's 1999 financial statements.

The report includes messages from ATF's Director and Chief Financial Officer, FY 1999 Highlights, Management's Discussion and Analysis, Report of Independent Accountants on the financial statements, ATF's financial statements, related notes and required supplementary information. The employees of ATF are proud to dedicate this report and the accomplishments described herein to Director John W. Magaw who leaves ATF as its Director for the past six years.

The Management's Discussion and Analysis section addresses ATF's performance measures, financial statements, systems and controls, compliance with laws and regulations, and corrective actions taken or planned to address problems. It also includes a "Performance Goals and Results" section that reports on ATF's three major activities: Reduce Violent Crime, Collect Revenue, and Protect the Public, and the programs that support these activities.

A copy of ATF's FY 1999 Accountability Report is available for public downloading at ATF's Internet Web Page at <http://www.atf.treas.gov/pub/pub.htm>.





Message from the Director



The men and women of ATF continue to autograph their work with excellence by building upon past successes and embracing innovations in human resources, information technology, business processes, and structure that will move the Bureau forward into the challenging new century.

As a result of our strengthened infrastructure, for the first time since 1993, we have been able to recruit, hire, and train a significant number of special agents and inspectors. Moreover, we have developed a pilot pay banding and performance management system that will allow greater flexibility to attract, hire, and retain high caliber personnel in scientific, engineering, and technical occupations. These issues were critical to ATF in accomplishing our varied mission of reducing violent crime, collecting the revenue, and protecting the public.

We also have effectively used our new information technology structure to implement enhanced case management tools for special agents and inspectors as well as a centralized financial management framework. This structure has also served to expand our ability to link and analyze crime gun information from ATF's National Tracing Center databases, and to develop additional criminal referrals for use by ATF employees and other State and Federal law enforcement agencies. ATF's National Revenue Center has applied technology to finalize procedures for implementation of the provisions of the Tax Reform Act of 1997 that take effect on January 1, 2000. At the same time, we have prepared our information systems for Y2K readiness and developed plans to ensure that there will be no interruption in the Bureau's ability to serve the American public as we enter the new year.

ATF has also made great strides in fulfilling our vision of building physical structures that better accommodate our increased responsibilities in carrying out Federal laws governing alcohol, tobacco, firearms, explosives, and arson. Construction was substantially completed on ATF's canine facility in Front Royal, Virginia, where up to 100 explosives and accelerant detecting canines will be trained each year for the use of local, State, Federal, and international agencies. In collaboration with the scientific, academic, and investigative communities, we have designed a world class National Laboratory and Fire Research Center and moved much closer to construction in Beltsville, Maryland. Additionally, we have received initial funding for a proposed site in the Nation's capital for a permanent and more secure ATF Headquarters facility. Arrangements have also been made to relocate ATF's National Tracing Center to a larger facility in Martinsburg, West Virginia, to accommodate ATF's growing role in supporting other law enforcement agencies in fighting violent crime.

The many successes detailed in the following pages are guided by the principles and spirit of ATF's strategic plan. Other Treasury and non-Treasury agencies have used that plan as a benchmark for their effective alignment of performance goals with program activities. For the past five years, independent audits, conducted first by the Department of the Treasury and then by PricewaterhouseCoopers LLP, have produced the highest possible rating on the soundness of ATF's financial systems and its management of resources. The evaluation of our management systems and controls for FY 1999, required by the Federal Managers' Financial Integrity Act of 1982, as in prior years, demonstrates compliance with that Act. And again, the evaluation disclosed no material non-conformances with ATF's programs or administrative activities or with government-wide requirements in ATF's financial management systems. The Bureau is also in compliance with the requirements of the Federal Financial Management Improvement Act of 1996 reflecting that ATF has implemented and maintained financial systems that comply with Federal financial management systems requirements, applicable Federal accounting standards, and the United States Government Standard General Ledger at the transaction level.

The expert and experienced public servants who comprise the ATF team provide outstanding service to the citizens of this Nation. Their knowledge in very controversial and complex jurisdictions is unmatched in all but their dedication and talent.

John W. Magaw



Message from the Chief Financial Officer



ATF's Chief Financial Officer (CFO) and Deputy CFO.

For those stakeholders who have read our previous reports, you will see that the Bureau of Alcohol, Tobacco and Firearms has received 4 consecutive favorable audit opinions. This year we received an unqualified opinion. The American public can be assured that ATF is managing its resources in a sound manner and can accurately link these resources to mission results. For others who may be reading our report for the first time, we hope that you will see the pride, diligence, and professionalism of our ATF employees – our most valuable asset. They have worked in a smart and focused way to accomplish our mission and to improve the Bureau's infrastructure through (among other things) a massive recruiting effort, developing new information technology systems and acquiring additional facilities to strengthen ATF's law enforcement efforts.

With respect to systems, one important element of accountability is having a financial and cost accounting system that provides timely and reliable information for decision makers. We are pleased to report that we began the implementation of a new financial system (Financial Resources Desktop System), which will be effective for FY 2000, and will allow us to take advantage of an enterprise system and network that provides reporting, payment and accountability solutions. This new system will provide real-time information to program managers and other decision makers. In the long-term, this approach will reduce labor intensive tasks – thus freeing up human resources to be creative and more productive.

Finally, Fiscal Year (FY) 1999 marks the end of a unique period for ATF. This is the last accountability report under the visionary leadership of Director John W. Magaw who is leaving after 6 years of outstanding service at ATF. Secondly, FY 1999 reflects the sum total of our strategic efforts to position ATF to meet the challenges of E-Government & E-Commerce and better asset management as we begin the 21st Century.

My thanks to the Treasury Office of Inspector General and its audit contractor (PricewaterhouseCoopers LLP) for their continual partnership in ensuring that you, the American taxpayer, have insight into Bureau operations. The men and women of ATF are proud to show how they are applying program and administrative support resources in more innovative ways to maximize efficiency as we work for a sound and safer America.

I welcome your comments and observations about our report.

e-mail address wt Earle@atfhq.atf.treas.gov

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FY 1999 Highlights

Reduce Violent Crime

- Hired new special agents and inspectors to staff the 27 Youth Crime Gun Interdiction Initiative (YCGII) cities.
- Implemented an investigative referral system to process information received from the FBI following National Instant Criminal Background Check System (NICS) checks.
- Installed 40 Integrated Ballistics Identification System (IBIS) units in 34 cities to meet demands of law enforcement communities.
- Acquired the former IRS computer center in Martinsburg, WV, for relocation and expansion of ATF's National Tracing Center to accommodate the growing demand for crime gun traces.
- Implemented a complete field re-structuring as part of a continuing effort to modernize ATF's culture and effectiveness.
- Developed and provided training for the Bureau's Critical Incident Management System (C.I.M.S.) which involves the deployment of a Divisional Critical Incident Management Response Team (C.I.M.R.T.) supported by a Critical Incident Management Support Team (C.I.M.S.T.) at Bureau Headquarters. Four

Executive Level C.I.M.S. training seminars were completed during this fiscal year as well as twenty-three Field Division C.I.M.R.T. training evolutions. Additionally, two C.I.M.S.T. training seminars were conducted at Bureau Headquarters. Since its inception, ATF has successfully field tested the C.I.M.S. during actual investigations/critical incidents six times.

Collect Revenue

- Continued efforts to consolidate the technical services offices to the National Revenue Center. The target date to complete the closure of the technical services offices is December 31, 2000.
- Collected \$12.1 billion in revenue generated from Federal excise taxes imposed on alcohol, tobacco, firearms and ammunition.
- Investigated diversion of alcohol and tobacco products resulting in 49 defendant prosecutions and seizures resulting in over \$11 million being credited to the Treasury Asset Forfeiture Fund by ATF, Customs, and IRS.
- Worked on developing methods for implementation of E-Government regarding the processing of tax returns, tax payments, and reports.

Protect the Public

- Resolved 923 public safety violations disclosed during explosives compliance inspections.
- Enhanced the alcohol beverage sampling program to provide greater protection to the public.
- Conducted trade practice investigations which curtailed illegal marketing practices of alcohol beverages.
- Partnered with the regulated industry to curtail misleading alcohol advertisements.
- Initiated regulatory changes to prohibited alcohol packaging directed toward youth.
- Provided information to the public and industry using the ATF Internet Web Page.
- Supported international trade in alcohol beverages.

Bureau-wide Programs

- Deployed N-FORCE and N-SPECT Subsystems of ATF's National Field Office Case Information System (N-FOCIS) to all of ATF's Field Operations offices across the country. There are approximately 2,800 N-FORCE and 750 N-SPECT users trained. As of October 15, 1999, there are approximately 5,800 open investigations in the N-FORCE system.

<ul style="list-style-type: none"> Re-engineered ATF's Human Resources process to meet the legal requirements of a class action lawsuit, and participated as a pilot in the Treasury Department's Integrated Human Resources System (Peoplesoft). Established the Merit Promotion Board (MPB) which was mandated to improve and standardize the selection process for GS-14 and GS-15 supervisory and managerial positions. All new supervisory positions at this level are now interviewed and selected by this board. Enhanced ATF's overall recruitment process for special agents and inspectors. ATF has interviewed more than 1,800 applicants for special agents and inspectors positions and hired 200 special agents and 97 inspectors. (Approximately 7,700 applicants were screened; based on initial goal a total of 100% of special agents and 97% of inspectors have been hired for FY 1999). Upgraded the Bureau's core financial system from a mainframe environment to a client server to reduce manual processing and begin to integrate with other financial and mixed financial systems. Its goal is to produce total electronic processing of financial transactions. Over 500 users are operational on the system, with training provided for over 250. Implemented a new credit card conversion and closed all cash imprest funds for greater control over financial assets and to meet cash management goals. 	<ul style="list-style-type: none"> Substantial progress was made on the acquisition of land for ATF's new National Laboratory and Fire Research Center. The intended construction is to begin in January 2000, with planned occupancy in the summer of 2001. Received 50 percent more e-mail inquiries from the public, industry members and others from fiscal year 1998 to 1999. ATF now receives more than 1,200 e-mails per month. Placed the ATF Bomb Threat and Physical Security booklet on our Internet site as part of ATF's response to the nation's focus on preventing juvenile violence in schools. There have been thousands of "hits" by school administrators, school resource officers and others who are using the booklet as part of their crisis response planning. ATF will use the Internet in FY 2000 to continue focusing on juvenile violence prevention efforts as part of its overall strategic plan. Made significant progress in adding legal support to ATF's field offices by placing Division Counsels in 15 of its 23 field divisions. Conducted 11,183 training courses for ATF employees. In addition, 42,202 Federal, state, local, international law enforcement officers, and industry personnel participated in ATF-sponsored training. 	<ul style="list-style-type: none"> Trained a record number of new ATF special agents and inspectors through New Professional Training (NPT) at the ATF Academy; 168 agents and 72 inspectors commenced their careers by successfully completing this basic training. Trained 10 Computer Investigative Specialists (CIS) in Basic Seized Computer Evidence Recovery, in conjunction with the Treasury Department's CIS2000 program. Additionally, seven CIS's were trained in Advanced Computer Evidence Recovery techniques, bringing the total number of ATF personnel qualified as CIS's to 21. Established the National Firearm Examiner Academy for training firearms and toolmark examiners in the latest ballistics technology to help state and local law enforcement meet the growing backlog of unsolved shootings. Completed radio equipment installations, moving one step closer to meeting the National Telecommunications and Information Administration (NTIA) mandate of having all Federal agencies operating in the narrowband environment for land mobile radio communications equipment by January 1, 2005. Forty-eight (48) percent of ATF's radios now meet the NTIA mandate of operating in the narrowband environment.
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V i s i o n

**"Working for a Sound and Safer America...
...Through Innovation and Partnerships"**

The Bureau of Alcohol, Tobacco and Firearms (ATF) must respond to the public outcry against crime, violence, and other threats to public safety. We must also continue to do our part to maintain the economic stability of the country. Our vision will help us chart the course to change the way we do business and achieve new levels of effectiveness and teamwork.

M i s s i o n

The Bureau of Alcohol, Tobacco and Firearms (ATF) is a law enforcement organization within the United States Department of the Treasury with a unique combination of responsibilities dedicated to reducing violent crime, collecting revenue, and protecting the public.

A T F V a l u e s

The Bureau of Alcohol, Tobacco and Firearms:

We value each other and those we serve.

We will:

- Set and uphold the highest standards of excellence and integrity;
- Provide quality service and promote strong external partnerships; and
- Develop a diverse, innovative, and well-trained work force in order to achieve our goals collectively.



ATF's Activities, Programs, and Performance Measures

Activity	Programs	Performance Measures
<p>Reduce Violent Crime:</p> <p>Effectively contribute to a safer America by reducing the future number and cost of violent crimes.</p>	<ul style="list-style-type: none"> ● Deny criminals access to firearms. ● Safeguard the public from arson and explosives incidents. ● Remove violent offenders from our communities. ● Prevent violence through community outreach. 	<ul style="list-style-type: none"> ● Crime-related costs avoided. ● Future crimes avoided. ● Number of ATF and non-ATF persons trained/developed. ● Number of firearms traces. ● Average trace response time.
<p>Collect Revenue:</p> <p>Maintain a sound revenue management and regulatory system that continues reducing taxpayer burden, improves service, collects the revenue due, and prevents illegal diversion.</p>	<ul style="list-style-type: none"> ● Fully implement the National Revenue Center. ● Collect all revenue that is rightfully due. ● Use electronic commerce. 	<ul style="list-style-type: none"> ● Taxes/Fees collected from alcohol, tobacco, firearms and explosives industries. ● Ratio of taxes and fees collected vs. resources expended. ● Burden hours reduced.
<p>Protect the Public:</p> <p>Protect the public and prevent consumer deception in ATF's regulated commodities.</p>	<ul style="list-style-type: none"> ● Assure the integrity of the products, people, and companies in the marketplace. ● Ensure compliance with laws and regulations through education, inspection, and investigation. ● Inform the public. 	<ul style="list-style-type: none"> ● Response to unsafe conditions and product deficiencies discovered (explosives). ● The number of commodity seminars held. ● Number of inspections (explosives). ● Percent of population inspected (firearms).



Management's Discussion and Analysis

Mission and Organizational Structure

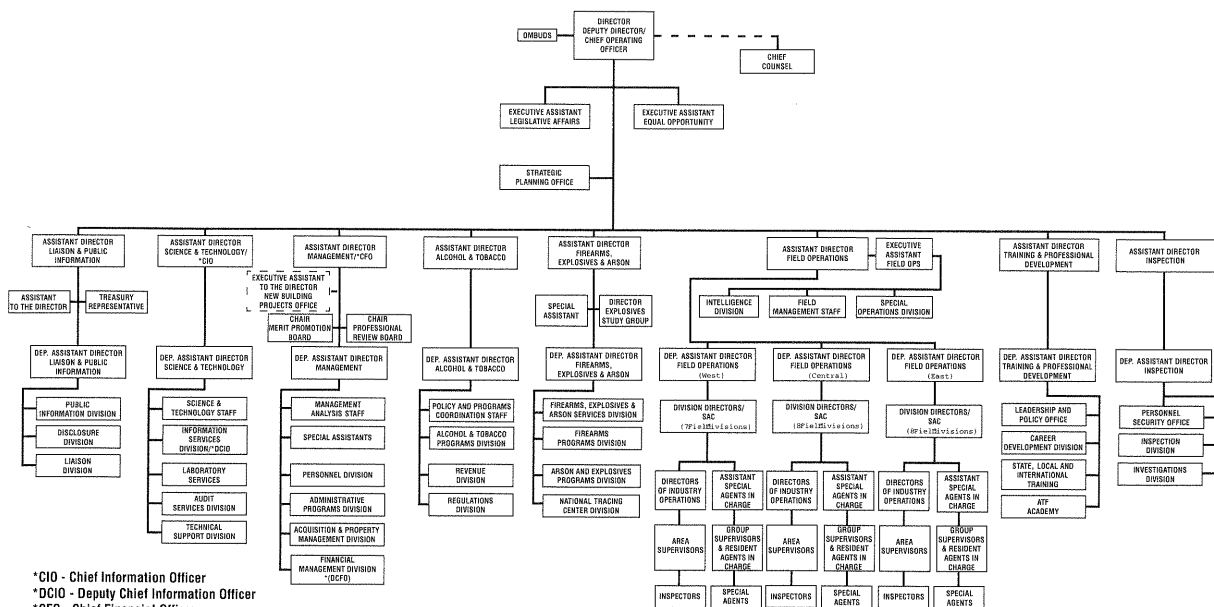
The Bureau of Alcohol, Tobacco and Firearms (ATF) is a Federal law enforcement organization that serves as the nation's expert on four highly regulated consumer products: alcohol, tobacco, firearms and explosives. These products require special attention due to the important social consequences resulting from their misuse or abuse. ATF represents a uniquely concentrated resource for providing investigative; regulatory; tax collection; and technical, scientific and legal expertise relating to these products. This unique combination of tools and skills allows ATF to provide a focused, flexible and

balanced approach to protecting the public's legitimate access to these commodities while fighting unlawful use and trafficking.

ATF's National Headquarters, located in Washington, DC, consists of offices that develop major policies and programs in accordance with the applicable laws and regulations that ATF enforces. The ATF executive structure consists of the Director, Deputy Director, Chief Counsel, and the Assistant Directors for Field Operations; Firearms, Explosives and Arson; Alcohol and Tobacco; Inspection; Liaison and Public Information; Man-



Department of the Treasury BUREAU OF ALCOHOL, TOBACCO AND FIREARMS



*CIC - Chief Information Officer
*DCIO - Deputy Chief Information Officer
*CFO - Chief Financial Officer
*DCFO - Deputy Chief Financial Officer

agement/Chief Financial Officer; Science and Technology/Chief Information Officer; and Training and Professional Development. These executives form the core of the Bureau's Strategic Leadership Team and Investment Review Board. The Office of the Director includes the Deputy Director, Ombudsman, and Executive Assistants for Legislative Affairs, Equal Opportunity and the Strategic Planning Office.

Geographically, ATF has offices in every major U.S. city and in Mexico, Canada, Colombia, Guam, U.S. Virgin Islands, the Commonwealth of Puerto Rico, and France. The field structure is comprised of twenty-three (23) Field Divisions strategically located throughout the United States – with a single executive heading each office and having responsibility for all law enforcement and revenue activities assigned within the Office of Field Operations. Plans are underway for field divisions to have on-site legal and forensic audit support as well as equal opportunity policy advisors. At this time, ATF has Counsel offices in 15 field divisions (Atlanta, Boston, Charlotte, Chicago, Columbus, Dallas, Detroit, Miami, New Orleans, New York, Philadelphia, Phoenix, San Francisco, Tampa, and Washington).

The Office of Equal Opportunity has six EEO Managers, one in San Francisco, Chicago, New York, Dallas, Atlanta and Headquarters. Each field division has been assigned to one of these six EEO managers.

In addition, ATF operates the following service centers and training facilities throughout the United States:

- National Tracing Center in Falling Waters, West Virginia.
- National Licensing Center in Atlanta, Georgia.
- National Revenue Center in Cincinnati, Ohio.
- Laboratories in Maryland, Georgia, and California.
- ATF Academy, located at the Federal Law Enforcement Training Center in Glynco, Georgia, and a satellite office at Fort McClellan, in Alabama.

As of September 30, 1999, ATF had 4,458 employees on board, of which 4,286 were full-time permanent employees. Additional information on ATF's programs is provided in the Management's Discussion and Analysis section of this report. ATF's Internet site also contains other supporting documentation and reference materials (<http://www.atf.treas.gov>).



The destruction from the tornadoes that hit the Oklahoma City area brought ATF employees on scene to assist the victims with cleanup and prepare food.

Major Infrastructure Challenges Facing ATF

Year 2000 Date Compliance

ATF has worked diligently this past year to prepare the agency to meet Y2K compliance and enter Calendar Year 2000. The Information Technology (IT) hardware throughout the Bureau has been updated and ATF is in the process of completing final validation checks on remaining mission critical IT and non-IT systems. ATF anticipates completing the renovation phase for all mission critical and all remaining mission critical non-IT systems prior to December 1999. In addition, ATF is renovating high priority non-mission critical systems that may impact Bureau operations but are not critical enough to be classified mission critical.

Concurrently, ATF is preparing to transition to a post-deployment phase that will address crisis activities and post Year 2000 (Y2K) actions. This phase is designed to facilitate resumption of normal operations. As part of its Outreach program, the Bureau has been coordinating and exchanging information with its trading partners and other third party organizations. ATF has published revenue collection and firearms Y2K Industry Guidance Letters to advise taxpayers and regulated industries of excise tax and other responsibilities relative to Year 2000.

ATF is confident that any potential Year 2000 issue will have a negligible impact on its strategic mission activity to collect the revenue due to the Federal Treasury and its other strategic mission activities to reduce violent crime and protect the public.

ATF has categorized its Y2K costs as "Y2K direct", "mixed" or "indirect" per the Department of the Treasury's guidance for submission of a Bureau Year 2000 Quarterly Cost Model (Budget Report). Based on information referenced in the ATF Cost Model the following is provided:

- ❖ Historical direct costs through FY 1999 are \$27.3 million. Inclusive in those costs is \$14.2 million allocated directly to system fixes and replacements.
- ❖ Historical mixed costs through FY 1999 are \$29.8 million. These costs are a portion of the total system repair or replacement costs that are attributable to Year 2000.

- ❖ ATF has \$97,500 in indirect labor costs that have been attributed to year 2000 services.

- ❖ ATF's FY 2000 cost estimates are:

Direct	\$2,755,000
Mixed	\$7,730,500
Indirect	\$13,500

The major risk to ATF's mission would be a lengthy disruption in infrastructure services both internally and externally. The key areas are electricity, communications, transportation, banking, and health-related services. ATF believes that there will not be a major impact on agency operations unless the disruption of service is longer than seven days and is nation-wide in scope. ATF believes that the worst case scenario would be an external infrastructure service disruption.

ATF has developed a Business Continuity and Contingency Plan (BCCP) that addresses its core business processes and associated risks and threats. Concurrently, ATF has developed separate contingency plans for all mission critical information technology and non-IT systems. ATF has developed a Y2K Crisis Management Plan to address likely worst case and other minor threat scenarios. As part of this plan, ATF has developed "Pre-Day One", "Day One", and "Post-Day One" strategies that are designed to mitigate any adverse Y2K impacts.

Financial System Conversion

During this past fiscal year, ATF readied its financial operations to move from the mainframe to a client-server environment effective October 1, 1999. This conversion was necessary to move the last major software application off an old mainframe architecture to one that would "speak" to other systems already converted during Y2K efforts. Upgraded software and hardware were deployed to over 500 users at Headquarters and 23 field operation sites. Over 250 users received an intensified one-week training for the transition to a window-based, client-server environment which would produce electronic processing of requisitions for goods and services, and miscellaneous expenses from point of origin to issuance of purchase orders and payments.

This project was completed in less than nine months and five years of open financial transactions were converted to the new system. The outcome of this project has moved the Bureau from a completely paper-driven environment to electronic processing of most financial transactions. The new system was integrated with the Bureau's procurement system and the Bureau's payroll system at the Department of Agriculture. In addition, all small purchase expenses made through credit cards will be electronically downloaded to the financial system on a daily basis. Thus, all budgets are automatically reduced on a daily basis with no lag of processing time. Combined with this effort was an executive desktop financial status report which combines financial data by fund, major expense category, full-time equivalency utilization, and performance measure. This report will provide real-time access to all executive decision-makers.

FY 2000 will focus on stabilization of the system and plans to integrate with the Bureau's property system. It is also anticipated that a pilot will be in place to electronically process all travel vouchers based on funding received from the Congress in late FY 1999, which will require training for all ATF travelers.

Expansion of Physical Structures

ATF is in the beginning stages of a vibrant and exciting future as it relates to the expansion of its physical structures. In addition to the new ATF Canine Training Center, a successful business case was presented to the Treasury Investment Review Board for the construction of a new ATF National Headquarters in Washington, DC and a new National Laboratory Center in Northern Prince Georges County, Maryland.

National Laboratory Center

A new National Laboratory Center is being constructed because the existing laboratory in Rockville, Maryland cannot be successfully modified to meet new laboratory accreditation standards. It also cannot be expanded to include the new ATF mission requirement for a fire investigation, research and education program - a fire research laboratory. The fire research facility will be the first of its kind for law enforcement and is one of the exciting new initiatives to be included in the new laboratory. The Government's lease for the existing laboratory will expire in June 2001. The development of the new ATF National Laboratory Center, including the Fire Research Labora-

tory, is critical to ATF's successful implementation of its Strategic Plan, a portion of which addresses improved investigations to support criminal enforcement in all ATF jurisdictional areas, including bombings and major fires.

The new National Laboratory Center will, in fact, house three very different laboratories as well as continue as the administrative headquarters for the entire ATF laboratory system. The Forensic Science Laboratory and Alcohol and Tobacco Laboratory will be relocated from their current location in an aging, poorly ventilated building to a new, modern laboratory designed specifically to meet the demands of each laboratory's unique functions.

The Alcohol and Tobacco Laboratory conducts chemical, physical and instrumental analyses on the alcohol and tobacco products that ATF regulates. This work supports the Bureau's regulatory enforcement activities toward collecting the revenue due and protecting the public.

The Forensic Science Laboratory will continue its work on crime scene investigations and support to ATF's unique forensic focus on firearms, bombs and major fire investigations.

The Fire Research Laboratory will concentrate on research to support fire investigations and be capable of recreating larger fire scenarios, under controlled and environmentally sound conditions. Where the handful of other fire laboratories in the world focus on safety, the ATF fire research program and facilities are being carefully designed to conduct the unique kind of testing that will provide the tools prosecutors and fire investigators need to convict arsonists.

A goal for ATF was to locate the National Laboratory Center close to the University of Maryland, College Park campus. ATF and the University have an active partnership that has focused on training Certified Fire Investigators. This partnership is expected to expand to include a variety of mutually beneficial sharing of technical and professional resources when the Laboratory is complete. The final site selection met that goal, and represents an exceptionally appropriate location for the laboratory. It is appropriately zoned, it is large enough to allow generous buffers between the laboratory and its neighbors, and it is fully wooded, allowing the design team to create a beautiful campus environment for laboratory personnel.

The site contract and Department of Justice review was completed by the General Services Administration on behalf of ATF in FY 1999. The unique single-story structure was designed especially to complement the 35 wooded acres on the Ammendale Business Park Campus in North Prince Georges County, Maryland near Beltsville. The new laboratory is being designed by world-renowned architects as part of a GSA development team partnership, surpassing all approval and schedule expectations to date. The facility will house up to 142 employees in an attractive and collegial work environment. Construction is scheduled to begin in early 2000 and occupancy is scheduled for late 2001.

New ATF Headquarters

The General Services Administration, on behalf of ATF and the Department of the Treasury, has been searching for a site for the Federal construction of ATF's new National Headquarters facility for three years. Over the last year, the primary focus has shifted to a location in the District of Columbia at the southeast intersection of New York Avenue and First Street, NE with Florida Avenue bordering on the west. By the end of FY 1999, an agreement between the District government and Federal government on acquisition of the property, known as Square 710, for ATF's new Headquarters, was near completion.

ATF and GSA focused their attention on the New York Avenue site for several reasons: (1) the site size accommodates the project's requirements; (2) it is owned by the District of Columbia, another government entity; (3) it is more affordable than commercial sites in DC; (4) the site is critical to one of the city's key economic revitalization zones; (5) DC has engaged Metro and private developers for the areas around the site; and (6) it keeps ATF within 10 blocks of its current location.

The facility is authorized by Congress to house approximately 1,100 ATF personnel and provide 200 parking spaces. The design architect will be selected following standards set forth in GSA's nationally award-winning Design Excellence Program. The design will also include input from the local community, and will be located on a cornerstone site of the New York Avenue Corridor, a main entrance into Washington DC. The site studies, public comment and acquisition activities will conclude in FY 2000. Design development will conclude in FY 2001. Construction is scheduled to begin in FY 2001 and be completed in FY 2004.

The new ATF Headquarters will provide a safe, modern, well-designed structure for its employees. This will enable them to perform the law enforcement and regulatory functions assigned to this agency. The development will incorporate protective design elements that will serve to reduce the danger of threats against ATF to the Headquarters and/or its neighbors. In addition, it will provide ATF with a permanent home, be a landmark facility and monument to City/Federal partnership and be a Class A – high tech office building. The new ATF National Headquarters will be the first Federal construction project to incorporate the full level of GSA's security design criteria in an urban environment. It will maintain ATF headquarters employees as a vital element of the local community it has been a part of for ten years and broaden ATF's outreach and support efforts in education and prevention programs.

Human Resource System Pilot

The Bureau also began participation in a pilot of the Treasury-wide human resource system. During FY 2000, these efforts will begin to automate the Bureau's processing of personnel actions at point of origin and substantially reduce a labor-intensive paper process. The system will be available to all Headquarters and field offices.

Performance Goals and Results

Reduce Violent Crime

Through this activity, ATF enforces provisions of the Gun Control Act of 1968, the National Firearms Act, the Brady Law, the Violent Crime Control and Law Enforcement Act of 1994, the Organized Crime Control Act of 1970, the Anti-Arson Act of 1982, the Church Arson Prevention Act of 1996, and the Antiterrorism and Effective Death Penalty Act of 1996. Because many Federal laws contain provisions for mandatory extended sentences, ATF strives to increase State and local awareness of available Federal prosecution under these statutes.

Strategic Goal: Effectively contribute to a safer America by reducing the future number and cost of violent crimes.

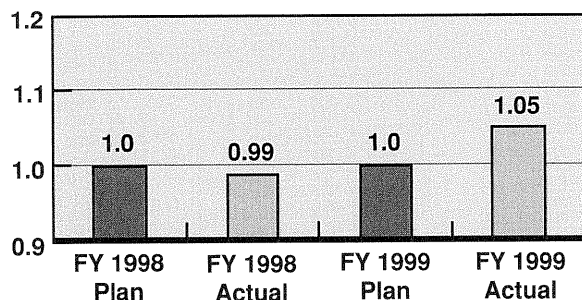
Programs: This strategic goal is accomplished through four programs:

- ❖ Deny Criminals Access to Firearms
- ❖ Safeguard the Public from Arson and Explosives Incidents
- ❖ Remove Violent Offenders from our Communities
- ❖ Prevent Violence through Community Outreach

Performance Measure: Crime-related costs avoided (in billions).

This measure tracks the estimated costs saved by incarcerating violent career criminals. Measures refer to firearms-related programs only.

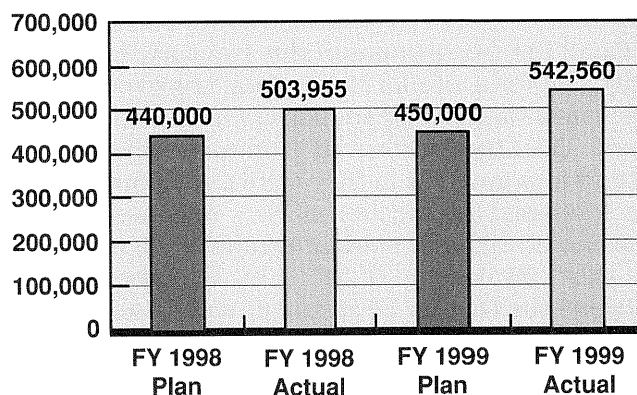
**Crime-Related Costs Avoided
(in billions)**



Performance Measure: Future crimes avoided.

This measure represents the number of crimes that are prevented when armed career criminals and firearms traffickers are incarcerated. The number of criminals sentenced is multiplied by the number of crimes that would have been committed by these criminals during the course of their incarceration. Measures refer to firearms-related programs only.

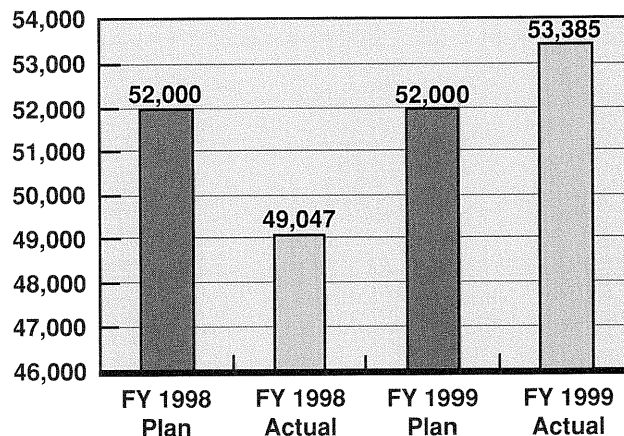
Future Crimes Avoided



Performance Measure: Number of ATF and non-ATF persons trained/developed.

This measure tracks the number of ATF personnel trained, and the number of individuals who are trained by ATF personnel including Federal, state, local, and international law enforcement personnel as well as industry members who attend ATF seminars.

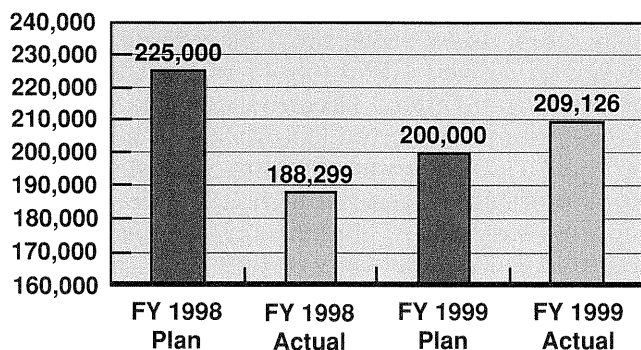
**Number of ATF and Non-ATF Persons
Trained/Developed**



The FY 1999 actual (53,385) represents the number of ATF and non-ATF persons trained/developed. The FY 1998 actual (49,047) only represents the number of non-ATF persons trained/developed.

Performance Measure: Number of firearms traces.

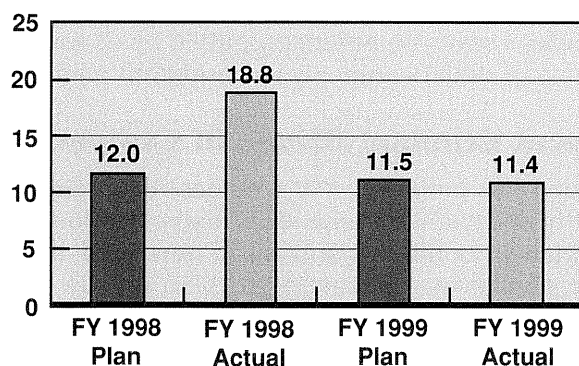
Number of Firearms Traces



The number of firearm traces projected for FY 1998 was based on the implementation of electronic data transfer systems. Those systems were not operable until FY 1999. During FY 1999 each of the 27 Youth Crime Gun Interdiction Initiative (YCGII) cities was provided the capability of transmitting trace requests to the National Tracing Center (NTC). The NTC is now in the process of deploying the ATF Electronic Trace Submission System (ETSS).

Performance Measure: Average trace response time (# of days).

**Average Trace Response Time
(number of days)**



In FY 1998, NTC underwent a complete change over in the systems platform for the Firearms Tracing System Database. This impacted the FY 1998 projection of a 12-day average per trace, resulting in an average of 18.8 days. The projection for FY 1999 was 11.5 days per trace. The actual average for FY 1999 was 11.4 days.

❖ Program: Deny Criminals Access to Firearms

This program involves projects and services that identify, deter, and stop the sources of, and participation in, illegal firearms trafficking.

Illegal Firearms Trafficking

ATF reduces the criminal availability of firearms by identifying illegal sources of firearms and incarcerating illegal firearms traffickers. Overall goals include recommending for prosecution the most active illegal firearms traffickers, preventing future firearms crimes, and reducing crime-associated costs by incarcerating illegal firearms traffickers.

Youth Crime Gun Interdiction Initiative (YCGII)

This initiative is a focused component of ATF's nationwide Firearms Trafficking Program, which identifies and investigates the illegal sources of firearms to youths. In response to the increased number of crimes involving America's youth, ATF developed and deployed YCGII in FY 1996. In FY 1997, YCGII was deployed in 17 cities. In FY 1998, the initiative was expanded to 27 cities and in FY 2000 it will be expanded to 38 cities. It is anticipated that the program will continue to expand to 75 cities in the next few years. In FY 1999, ATF promoted the use of online information from the National Tracing Center that provides essential investigative leads. Two major goals of YCGII are to encourage comprehensive crime gun tracing by State and local law enforcement agencies and to provide crime gun market analyses to break the chain of illegal supply of firearms to youths.

National Tracing Center

With restructuring effective October 1, 1999, ATF's National Tracing Center (NTC), Falling Waters, WV, became a division within ATF's Office of Firearms, Explosives and Arson. The new division is comprised of the former National Tracing Center Branch of the Firearms, Explosives and Arson Services Division, and the Crime Gun Analysis Branch.

The NTC is the only operation of its kind in the world. This facility conducts traces of firearms recovered at crime scenes and from youth for any Federal, State, local, or international law enforcement agency. Frequently, firearms trace results are the crucial piece of evidence that can link a

criminal to a violent crime and allow law enforcement officials to make an arrest. At a minimum, firearms trace information provides investigators with leads on the origin of the crime-related firearms in their investigations. The specific goal of the NTC is to increase the number of trace requests via increased electronic access to NTC information. The National Tracing Center is the only repository for all Federal firearms licensee out-of-business records, where millions of records are currently stored.

ATF developed and initiated the Electronic Trace Submission System (ETSS). The ETSS is currently deployed in 20 law enforcement agencies. Police departments in the YCGII cities can now electronically transmit crime gun trace requests to NTC. In addition to ETSS, the NTC utilizes the National Law Enforcement Telecommunications System and electronically transfers other data from State and local law enforcement systems. NTC is working with major firearms manufacturers and wholesalers to implement electronic transfer of trace information from business records that are maintained electronically. The Access 2000 system that is being used to do this by three manufacturers and one wholesaler, was developed by ATF.

The Crime Gun Analysis Branch provides ATF personnel and other law enforcement agencies with crime gun data specific to their geographical areas. The Branch uses crime gun data amassed by the NTC to identify illegal firearms trafficking patterns and trends throughout the world. The Branch conducts in-depth analysis using graphs and maps to provide visual effect. Online LEAD, a computerized investigative tool, is used by ATF personnel to identify illegal traffickers. The web-based Online LEAD software provides ATF field personnel and industry members with real-time statistical information concerning the segments of the firearms industry regulated by ATF. An essential part of denying criminals access to firearms is educating law enforcement officers of the benefits of comprehensive crime gun tracing. NTC representatives meet frequently with police officials to provide information concerning comprehensive crime gun tracing and to brief them on using crime gun data to assist in reducing violent crime. In FY 1999, the Crime Gun Analysis Branch made approximately 992 referrals to ATF field divisions. A total of 292 proactive referrals were also made to ATF field divisions. Crime Gun Analysis Branch employees conducted more than 21,000 queries.

Stolen Firearms

This project seeks to reduce thefts of firearms from Federal Firearm Licensees and interstate carriers transporting firearms. The project is designed to assist the Firearms Trafficking Program by reducing the number of stolen firearms available to criminals. This is accomplished through collecting and analyzing firearm licensee and interstate carrier theft information, and providing investigative leads to special agents and inspectors. In FY 1999, the Stolen Firearms Program received 1,550 reports of theft/loss of firearms from Federal Firearm Licensees with 8,910 firearms reported lost/stolen. It also received 1,009 reports of firearms missing/stolen from interstate shipments with 1,983 firearms reported lost/stolen. Firearm theft recoveries reported in FY 1999 were 10,069.

All of these reports of thefts/recoveries were provided to ATF Field Offices for their consideration in the opening of a criminal investigation.

❖ Program: Safeguard the Public From Arson and Explosive Incidents

An integral part of ATF's overall violent crime reduction strategy, ATF's arson and explosives projects are directed toward preventing the criminal misuse of explosives and the crime of arson, as well as providing effective post-incident response. ATF, in part, measures its success by the amount it saves the public resulting from proactive investigations. This is particularly true with arson-for-profit schemes. ATF's efforts in arson cases save money for the insurance industry and, ultimately, save the American public by exposing millions of dollars annually in fraudulent claims.

Prevent Criminal Misuse of Explosives

Through this program, ATF provides resources to identify and pursue those who misuse explosive materials in bombings and arson fires. ATF has a cadre of explosive technologists with unique capabilities in explosives and bomb disposal. These professionals:

- Construct facsimiles of explosive and incendiary devices;
- Analyze destructive devices for the courts;
- Conduct safety procedures on destructive devices;
- Improvise explosive/incendiary devices and booby traps;

- Provide expert analyses of intact and functioned explosive/incendiary devices;
- Provide onsite technical investigative assistance during tactical operations and bombing and arson scene examinations;
- Classify new explosive/incendiary devices and materials;
- Keep abreast of the latest explosives technology;
- Provide technical advice on Federal explosives storage regulations;
- Provide training and instruction concerning explosives handling, storage and destruction for Federal, State, local, and foreign law enforcement officers and members of the explosives and pyrotechnics industries;
- Serve as explosives origin and cause experts in all National Response Team and International Response Team activations;
- Conduct explosives threat assessments; and
- Assist the State Department and the Diplomatic Security Service in conducting antiterrorism capability assessments outside of the continental United States.

incidents and the criminal misuse of explosives throughout the United States. The Secretary of the Treasury directed ATF to carry out this Congressional mandate. The information will be available for statistical research and analysis, investigative leads, and intelligence. The National Arson and Explosives Repository System (AEXIS) is an extension of the ATF Explosives Incidents System (EXIS) and incorporates information from Federal, State, and local fire service and law enforcement personnel. ATF recognizes that partnerships with other Federal agencies are integral to the success of the National Arson and Explosives Repository. The principal Federal partners in the data collection effort are ATF, the Federal Bureau of Investigation (FBI), and the United States Fire Administration (USFA).

The National Repository's development is divided into three phases. Phases one and two were completed respectively in 1997 and 1998. Phase one involved the establishment of a public Internet site that provides aggregate statistical summaries of data regarding arson and explosives incidents from data collected by ATF, the FBI, and the USFA. Phase two involved the modernization of the ATF's EXIS.

In FY 1999, data from EXIS, which dates back 20 years, was moved into AEXIS as part of Phase three. Phase three, which is to be completed in 2000, will integrate data from all contributing sources. It will provide statistical information to the public, and will establish a secure web site that will provide investigative information to authorized user groups.

The National Repository's secure site will be a law enforcement and fire service intelligence database, designed to aid investigators in identifying trends and similarities between arson and explosives incidents. The National Repository will help authorized investigators identify case-specific similarities regarding explosive and incendiary device construction, methods of initiation, types of fuels/explosives used, and methods of operation. The system will link thefts of explosives material

with the later criminal misuse of the explosives. Through partnership with other Federal, State, and local law enforcement and fire service agencies, the system will also help identify persons who commit crimes of violence using arson or



ATF Director John Magaw and Gary Myers, President of The Fertilizer Institute (pictured left) signed a letter of agreement expanding a new voluntary public-private partnership, the "Be Aware for America Campaign." The campaign serves to raise awareness across the country among dealers, product users and law enforcement agencies to be suspicious of purchasers and to have an increased vigilance over storage and distribution of fertilizer grade ammonium nitrate.

National Repository

In 1996, Congress recognized ATF's expertise in the arson and explosives arena and passed legislation authorizing the Treasury Secretary to establish a National Repository of information on arson

explosives. The system will link investigators who may be investigating similar incidents and will rely on communication among investigators to disseminate case-specific information on a case-by-case basis.

Church Fires

In early 1996, Federal officials detected a sharp rise in the number of reported attacks at houses of worship, especially African-American churches in the South. In June 1996, President Clinton formed the National Church Arson Task Force (NCATF) and made the investigation of these fires a top priority of Federal law enforcement. The task force combined the efforts of ATF, the FBI, Justice Department attorneys, Federal Emergency Management Administration, Department of Housing and Urban Development, and the Community Relations Service of the Department of Justice. ATF was designated as the lead Federal agency to investigate the origin and cause of fire and bombing incidents at houses of worship.

At the conclusion of the second year, the task force published a second report to the President for the period of January 1, 1995, through September 8, 1998. Analytical results are being compiled by ATF's Intelligence Division for inclusion in the President's third annual report. Thus far, the task force has opened 813 arson/bombing investigations. A total of 353 defendants have been arrested nationwide which solved 286 of the 813 investigations. ATF's Intelligence Division has reviewed 6,301 investigative leads and entered information on 1,395 crime scenes into its analytical database. The task force continues to investigate arsons, bombings, and attempted bombings that are targeted at houses of worship and will continue to promote church arson awareness through outreach efforts across the country.

Canines

The Accelerant Detection Canine Program is a product of a joint ATF/Connecticut State Police endeavor to place accelerant detection canines with State and local agencies to support their arson investigation activities. Through FY 1999, ATF certified a total of 68 accelerant-detecting canines for State and local agencies. In 1999, ATF trained six additional accelerant detection canine teams at the Canine Enforcement Training Center in Front Royal, Virginia.

Under a training arrangement with the U.S. Department of State, ATF trains explosive detection canines for foreign countries to be used overseas

in the war against terrorism and to protect American travelers abroad against terrorism. ATF has certified 190 canine teams for the program, deployed in ten countries worldwide. In FY 1999, ATF trained 26 additional canine teams and seven canine trainers for the Department of State, Office of Antiterrorism Assistance. ATF continues to perform assessments of additional foreign countries for placement in this program. ATF has special agent/canine teams stationed in Atlanta, Dallas, Miami, Los Angeles, San Francisco, and two teams stationed in Washington, DC.

ATF developed the Department of the Treasury's Odor Recognition Proficiency Standard for explosives detection canines. This standard was validated in 1999 by Oakridge National Laboratories. This standard is available to law enforcement agencies employing explosives detection canines.

During FY 1999, ATF trained and certified seven odor detection canine teams for State/local law enforcement agencies and three canine teams during FY 1999 for other Federal law enforcement agencies.

Research Initiatives

In FY 1999, in conjunction with the U.S. Army Corps of Engineers, the National Security Council, and the Defense Nuclear Agency, ATF continued to participate in a project known as Dipole Might. The objective of the program is to create a computer database and investigative protocol to assist investigators when processing large car bomb scenes. In 1999, the tests included the evaluation of road sign damage from blasts, taggant survival/retrieval, and explosives residue testing.

Currently, ATF has two full-time fire protection engineers, making it the only Federal enforcement agency that employs this level of specialized, professional expertise. ATF's fire protection engineers are dedicated solely to the analyses of origins and dynamics of fire as they pertain to criminal investigations. Additional fire scientists and engineers are being recruited in order to support criminal investigations and the new Fire Research Laboratory.

In FY 1996, Congress approved funding for the relocation and construction of a new National Laboratories Center, which will also house the new Fire Research Laboratory. Groundbreaking for the new facility in suburban Maryland is scheduled for December 1999. The new ATF National Laboratories Center is expected to be fully operational by mid-year 2001.

Explosives Study Group

Section 732 of the Antiterrorism and Effective Death Penalty Act of 1996 (April 24, 1996), mandates the Secretary of the Treasury to conduct a study of: the tagging of explosive materials for purposes of detection and identification; the feasibility and practicability of rendering common chemicals used to manufacture explosive materials inert; the feasibility and practicability of imposing controls on certain precursor chemicals used to manufacture explosive materials; and State licensing requirements for the purchase and use of commercial high explosives. The Omnibus Consolidated Appropriations Act for Fiscal Year 1997 provided the necessary funding for the study and added a requirement that the Secretary, in consultation with the Attorney General, concurrently report to Congress on the possible use and exploitation of new prevention technologies.

The Secretary delegated the responsibility for conducting the study to ATF, and on April 26, 1996, ATF established its Explosives Study Group (ESG). The director of the study group reports directly to the Assistant Director, Firearms, Explosives, and Arson.

The ESG is comprised of personnel from multiple directorates, all with specialized, extensive experience in the field of explosives. The work of the ESG includes consulting on study-related issues with domestic and foreign experts, including: law enforcement officials; Federal, State, and local-level regulatory officials; members of the scientific community; military personnel; and representatives from the industries that have an interest in the study. In addition to conducting in-house analyses of study-related issues and data, the ESG has established several research and development contracts and is pursuing further contracts. Finally, the ESG is engaged in explosives testing to determine the viability of several existing and proposed technologies.

The goal of the ESG is to conduct a comprehensive study in order to recommend to Congress an integrated strategy to improve the current state of public safety. This strategy will likely include recommendations for more efficient regulation of explosives; voluntary, industry-based programs aimed at heightening public awareness; and the potential for use of efficient technologies to identify and detect explosives and explosive materials.

The ESG submits, through Treasury, annual reports to Congress. The first and second annual report is available on the Internet at <http://www.atf.treas.gov/pub/taggent.htm>. The third annual report, and any subsequent reports, will be posted to the Internet upon its submission by Treasury to Congress. Upon conclusion of the study, the ESG will submit a final report to Congress, including recommendations, and hearings will be conducted.

Effective Post-Incident Response

ATF has long held that a coordinated and rapid deployment of highly trained and well-equipped individuals and related support functions is critical to the investigation of any arson or explosives incident. This "team approach" is the basis for ATF's National Response Team (NRT), its International Response Team, division response teams, and arson task forces.

The NRT can respond within 24 hours to major bombing and fire scenes anywhere in the United States. In FY 1999, the team provided effective post-incident response in 42 activations. These incidents involved \$129.3 million in damages and were responsible for 17 deaths and 29 injuries. Arrests were made in 46 percent of the criminal incidents investigated by the NRT, a percentage considerably greater than that for like incidents investigated nationwide. ATF continued to issue customer satisfaction surveys to those who used the NRT this year. The responses received have been positive. When surveys are received, ATF tabulates the data to determine the National Response Team's effectiveness.

ATF also maintains the International Response Team, formed as a result of an agreement with the Department of State. The team has been



Members of ATF's Northeast National Response Team examining the debris from a fire at an auto supply store.

deployed to such countries as Peru, Argentina, Pakistan, El Salvador, and Macedonia. Since its inception in 1991, the International Response Team has been activated 19 times for incidents involving explosives and fires. In FY 1999, the International Response Team was activated to Lusaka, Zambia to provide technical assistance to the Government of Zambia which was conducting a national investigation into a series of bombings directed against Government facilities and the Angolan Embassy. An International Response Team was activated to assist in the investigation of a bombing that occurred at the deputy prime minister's headquarters in Mbabane, Swaziland. There were one death and two injuries resulting from this bombing.

ATF provides vital resources to local communities in the wake of arson and explosives incidents. ATF pioneered the development of multi-agency task forces designed to pool resources and expertise in areas experiencing significant arson problems. In FY 1999, ATF led formal arson task forces in 16 major metropolitan areas throughout the United States.



An ATF agent at the scene of a fire that destroyed a warehouse belonging to a mining company.

A Certified Fire Investigator (CFI) and Certified Explosives Specialist (CES) are critical to the success of a comprehensive post incident response. ATF's CFIs are the only investigators trained by a Federal law enforcement agency to qualify as expert witnesses in fire cause determinations. In FY 1999, there were 82 of these investigators stationed throughout the United States. Nine CFI candidates will be certified in FY 2000. This provides strategic placement of these investigators throughout the country to assist Federal, State, and local agencies with fire origin and cause determinations and training. ATF's

270 CES personnel, who have developed an unmatched level of expertise in postblast analysis through years of experience, are proficient in all aspects of explosive identification, handling, instruction, demonstration, and destruction.

Because many arson crimes involve insurance, bank, mail and other types of fraud, these investigations often require complex forensic financial analyses. These complex financial investigations are provided through ATF's Office of Science and Technology, Audit Services Division. The office also provides comprehensive forensic science services, supports the task forces by providing financial auditing services, information systems



ATF Certified Fire Investigators' conduct extensive studies of an abandoned building that was burned for fire investigation training and research purposes.



ATF Certified Fire Investigators' conducting fire origin and cause investigation in school fire.



ATF Certified Explosive Specialists' set an explosive charge.

and equipment, and high-speed data communications. This includes Internet access to facilitate the research and exchange of national and international technical data and intelligence.

In the spirit of public/private partnerships, ATF, the U.S. Fire Administration, American Re-Insurance Company, and the National Fire Protection Association have developed a CD-ROM training tool that pools resources by combining the latest investigative techniques with state-of-the-art interactive computer training technology to create the most comprehensive fire investigation training tool to date. It uses interactive virtual reality software to put a fire investigator in the middle of a fictional, but highly realistic, fire investigation. The training program will cover the fundamentals of fire scene examination, show fire investigators how to access and use important information collected by the insurance industry, and stress how to handle, order, and present the physical evidence collected so that it will withstand the rigors of courtroom examination. Final delivery of the InterFIRE virtual reality CD-ROM training package is anticipated in the first quarter of FY 2000. ATF expects to distribute 30,000 copies of InterFIRE--free of charge--to Federal, State, and local investigators across the country.

❖ **Program: Remove Violent Offenders From Our Communities**

This program involves projects and services to investigate, arrest, and recommend for prosecution, the most violent criminals who use firearms and explosives in their criminal activity.

Armed Violent Criminal Apprehension Program

This program uses specific provisions of the 1968 Gun Control Act, as amended, that mandate extended periods of incarceration to remove the most dangerous, armed career criminals and armed drug traffickers from the streets. Firearms use and possession by these violent criminals become their "Achilles' heel" as they are exposed to lengthy prison sentences under these Federal laws. The firearms they possess yield valuable information regarding their previous criminal acts and criminal associates. Further, through firearms tracing, the illegal firearms sources for these violent criminals are investigated under ATF's Firearms Trafficking Program. These two projects, which are complementary, strive to incarcerate armed violent criminals for longer periods of time to prevent future crimes of violence and the costs of those crimes to the American public. Sentences have substantially increased because ATF special agents have been more effective at focusing on the more dangerous and violent armed criminals.

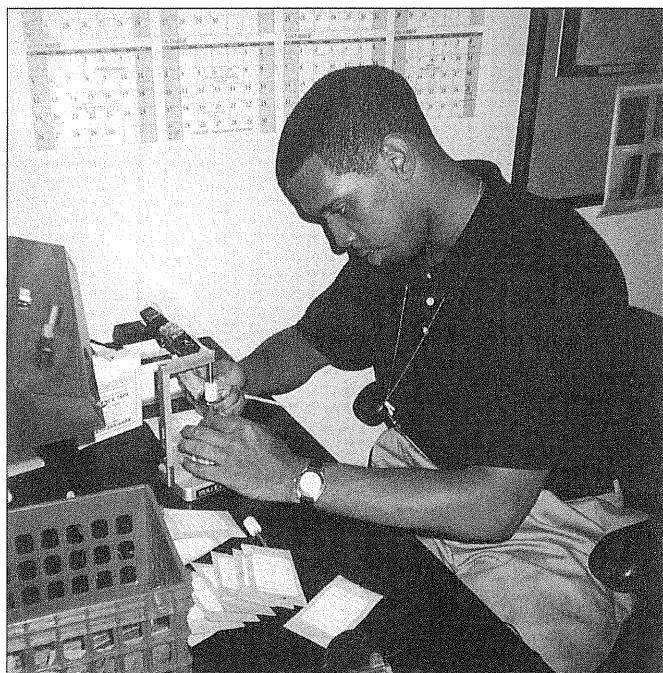


ATF weapons seizure - Achilles Gang Task Force.

National Integrated Ballistics Information Network (NIBIN)

The purpose of this project is to provide support to law enforcement agencies experiencing serious firearms-related violent crime. The project is based on providing focused investigative assistance to ATF's partners through the integration of ATF's various firearms enforcement programs and new forensic technology. Under the NIBIN Program, ATF is utilizing a state-of-the-art system that allows firearms technicians to digitize, correlate, and compare bullet and shell casing signatures automatically at a greatly accelerated rate. The equipment expeditiously provides investigators with leads to solve a greater number of crimes in a shorter period of time. The technological advances of this initiative draw upon the Integrated Ballistics Identification System (IBIS).

ATF, the Federal Bureau of Investigation (FBI), and a representative from State and local law enforcement have formed a partnership to ensure that agencies have the opportunity to acquire automatic ballistics technology. An agency representative from ATF, the FBI, and the Boston Police Department serve on the NIBIN board. The NIBIN strategy has been designed to join technological advances with various skilled human resources in a concerted effort to reduce firearms-related crimes. ATF supports NIBIN from its three major IBIS sites at ATF laboratories in Atlanta, San Francisco, and Washington, DC.



IBIS Specialist acquires a bullet image into the IBIS.

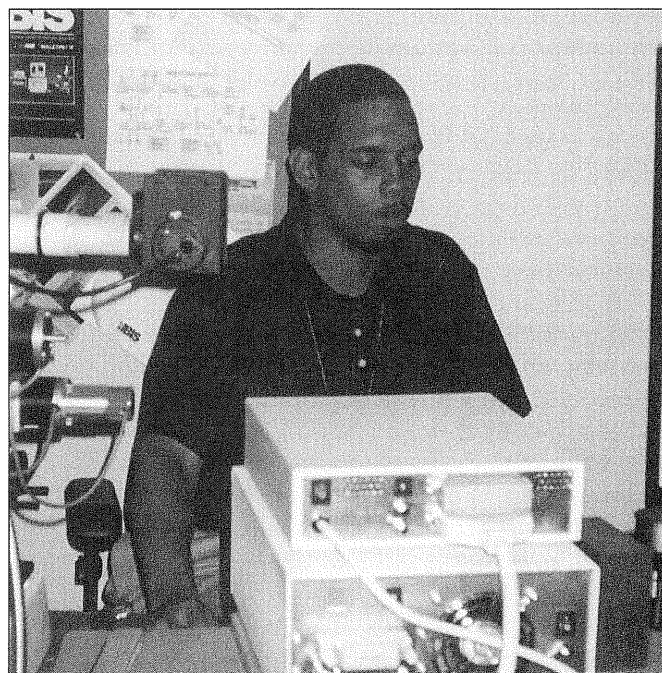
The NIBIN concept combines ATF's former CEASEFIRE and the FBI's DRUGFIRE Program initiatives into a Federally-sponsored initiative that creates a partnership among ATF, the FBI, and State and local law enforcement. The NIBIN board will set policy, develop budgets, review requests for system technology, and execute spending plans. The board is committed to ensuring that cartridge case compatibility is achieved between IBIS and DRUGFIRE. An objective of the board is to provide State and local requesters with the particular system that best meets their needs.

❖ Program: Prevent Violence through Community Outreach

This program focuses on community efforts designed to encourage and participate in the prevention of violence.

G.R.E.A.T. Program

The mission of the Gang Resistance Education and Training (G.R.E.A.T.) Program is to provide classroom instruction for school-aged children and a wide range of community-based activities that result in the necessary life skills, a sense of competency, usefulness, and personal empowerment needed to avoid involvement in youth violence and criminal activity. The Bureau provided funding to 109 different agencies to support their participation in the G.R.E.A.T. program. Over 350



agencies have officers certified to teach the program. During FY 1999, G.R.E.A.T. officers around the country have taught approximately 334,443 school-aged children.

As a result of a partnership established with Boys and Girls Clubs and their police departments last year, G.R.E.A.T. officers have taught the G.R.E.A.T. program in 49 cities nationwide in non-school environments. Students continue to have positive role models and adult leadership to reinforce the

lessons taught in G.R.E.A.T. at school and throughout the summer months.

In FY 1999, ATF initiated the addition of G.R.E.A.T.'s five regional training partners: the LaCrosse, Wisconsin Police Department, the Phoenix Police Department, the Orange County, Florida, Sheriff's Department, the Portland Police Bureau, and the Philadelphia Police Department. Eighteen G.R.E.A.T. Officer Training programs were conducted at these training sites.



Students participate in ATF's Gang Resistance Education and Training (G.R.E.A.T.) Program.

Performance Goals and Results

Collect Revenue

ATF plays a critical role in the Federal Government's tax collection process. Through this activity, the Bureau collects over 12 billion dollars in excise taxes levied on alcohol (wine, distilled spirits, and malt beverages) and tobacco products, firearms, and ammunition.

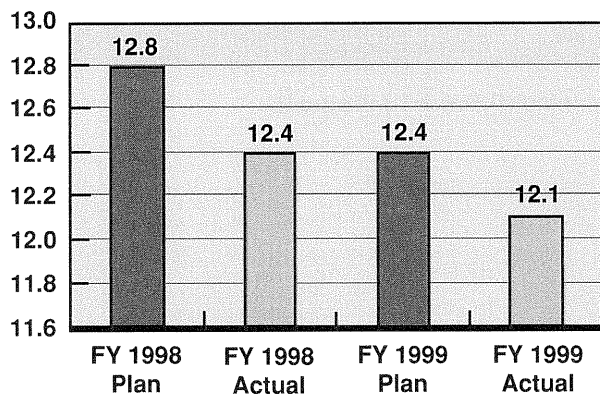
Strategic Goal: Maintain a sound revenue management and regulatory system that continues reducing taxpayer burden, improves service, collects the revenue due, and prevents illegal diversion.

Programs: This strategic goal is accomplished through three programs:

- ❖ Fully Implement the National Revenue Center
- ❖ Collect All Revenue that is Rightfully Due
- ❖ Use Electronic Commerce

Performance Measure: Taxes/fees collected from alcohol, tobacco, firearms and explosives industries (in billions). This measure includes revenue collected through alcohol, tobacco, firearms, and ammunition excise taxes, firearms and explosives license/permit fees, and special occupational taxes.

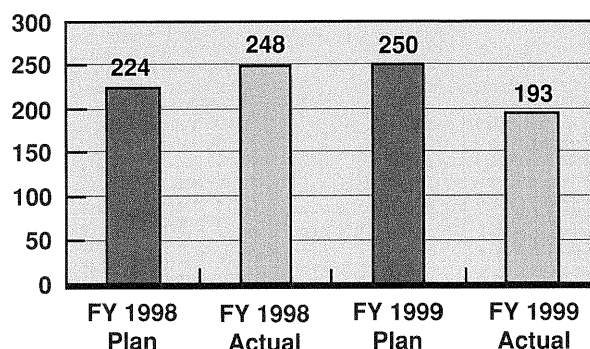
**Taxes/Fees Collected
(in billions)**



ATF has isolated the decrease in tax collections of tobacco. ATF has also noted a decrease in domestic consumption of tobacco and is analyzing other data such as production and exportation for both spirits and tobacco.

Performance Measure: Ratio of taxes and fees collected vs. resources expended. This measure represents the amount of taxes and fees collected, divided by the amount of resources to collect such taxes and fees.

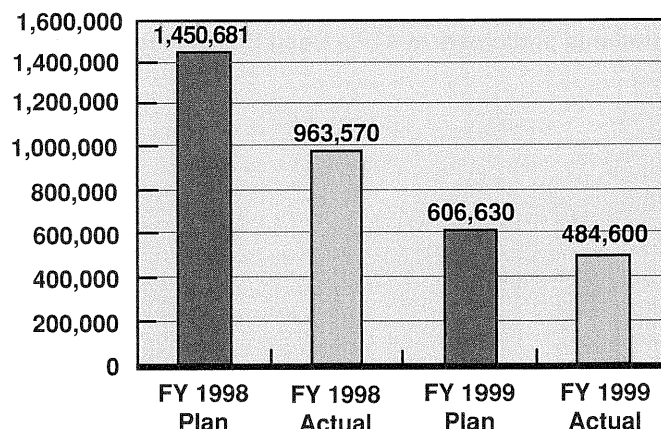
**Ratio of Revenue Collected to
Dollars Expended**



The ratio is less than planned due to increased operating expenses, personnel additions, and a decrease in tax collections on tobacco products.

Performance Measure: Burden hours reduced. This measure reflects the reduction in hours from FY 1998 to FY 1999 to comply with ATF regulations including the preparation of forms.

Burden Hours Reduced



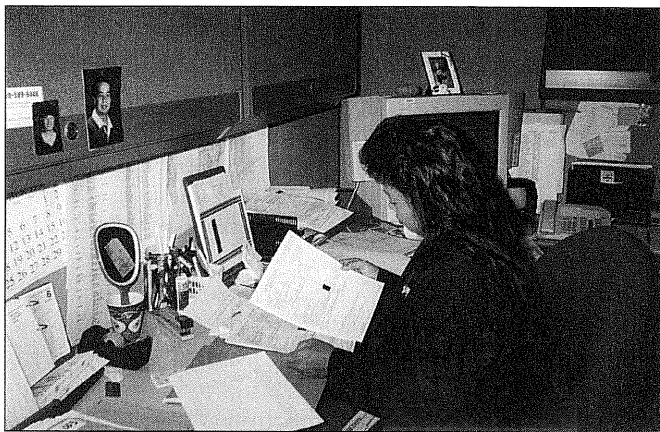
Based on unforeseen changes in the laws and regulations, ATF was unable to meet the planned burden reduction performance measure.

❖ Program: Fully Implement the National Revenue Center

Effective management of taxpayer accounts and proper receipt of tax returns and payments ensure that ATF accurately collects and reports all revenue receivables. The business processes performed by the employees and contractor personnel assigned to the National Revenue Center in Cincinnati, Ohio, and the Technical Services offices in San Francisco and Philadelphia are essential to ATF's effective management of excise taxpayers' accounts and collection of receivables. The principal activities of these entities are audits of tax returns and reports, audits of claims, collection actions, review and approval of applications for permits, registration of plants and surety bonds, and maintaining custody of official case files.

During FY 1999, ATF's National Revenue Center continued to consolidate business processes by reducing the number of Technical Services offices from three to two and by assimilating the functions of the Tax Processing Center. By the end of 2000, the National Revenue Center will process all tax and permit matters nationwide. The process of building a permanent home for the National Revenue Center was more than ninety percent completed and several technological improvements were implemented. At the National Revenue Center, a document and imaging workflow management system was implemented to reduce the volume of paper files and to improve the access to vital information. This system will assist in more efficient processing of documents and applications received in the National Revenue Center. The database systems for critical tax and permit operations are being upgraded, and should be completed in FY 2000. Technology is continuing to improve at the National Revenue Center to ensure that revenue owed is collected. In FY 2000, ATF will be in the process of fully automating the processing and analysis of industry operational reports.

ATF's other major initiative at the National Revenue Center is Electronic Commerce. This will play a more important role in determining how the National Revenue Center interfaces with industry.



National Revenue Center employee examining tax documents.

❖ Program: Collect All Revenue that is Rightfully Due

ATF collected \$12.1 billion, before refunds, in taxes, interest, penalties, and fees in FY 1999. Ninety-eight (98) percent of this revenue was derived from payments of alcohol (wine, distilled spirits, and malt beverages) and tobacco excise taxes. ATF's revenue management program includes a variety of processes and functions based on the reviewing, auditing, and recording of tax returns, deposits, and operating reports. The program includes the accounting for all deposits and payments for taxes and fees from the alcohol, tobacco, firearms, ammunition, and explosives industries. On-site inspections of those who pay alcohol, tobacco, firearms, and ammunition taxes are focused on facilities posing the greatest risk to the revenue based on the volume of operations, past history of violations, relative strength of management controls, and financial condition. A more detailed description of the various types and sources of revenues follows in the Financial Statements, Note 14, Non-exchange Revenue.

The National Revenue Center and Technical Services continued to monitor tax collections by auditing tax returns; levying assessments; initiating enforced collection action; analyzing required reports; requesting field verifications; and, accounting for tax payments and related refunds. These offices also review and act on applications and bonds submitted by companies that produce, import, or wholesale alcohol or tobacco products. When criminal conduct is suspected—as with diversion or label fraud cases—teams of ATF special agents, auditors, and inspectors conduct complex investigations of violations of the Federal Alcohol Administration Act and the Internal Revenue Code.

Diversions and Smuggling

ATF is engaged in an ongoing effort to reduce a rising trend in the illegal diversion of cigarettes and distilled spirits products. Diversion activity generally occurs when legally manufactured or produced alcohol and tobacco products deviate from their normal legal distribution method to an illegal unregulated scheme. In the illegal schemes, the products are being diverted and sold in violation of federal laws and regulations. Diversion activities also defraud the United States of tax revenue. For example, cigarettes and distilled spirits products are often fraudulently claimed for export markets (for which there is no tax liability) when, in fact, they are being diverted into the United States domestic market for sale where Federal and State taxes apply. ATF's goal is to ensure compliance with U.S. laws that will greatly reduce the illegal diversion of alcohol and tobacco products.

In addition to criminal penalties, ATF pursues tax assessments against domestic producers and individuals when the documentation offered to ATF to support the tax-free exportation of these products is determined to be counterfeit, inaccurate, or non-existent. ATF also considers administrative action or criminal prosecution against retailers, wholesalers, and manufacturers who knowingly supply to smuggling organizations.

In addition to alcohol and tobacco export fraud, ATF also enforces several statutes that deal with the illegal interstate trafficking of alcohol and tobacco products. Illegal commerce also occurs with the trafficking of alcohol and tobacco products from a state with a low excise tax rate to a state with a high excise tax rate. The profits can be significant and the states are often not prepared to deal with these multi-state criminal conspiracies. ATF agents, inspectors, and auditors work closely with their state counterparts during these types of investigations.

Another important part of the effort to fight fraud and diversion is the expanding cooperative relationship between ATF laboratories and the government laboratories of many foreign countries. The laboratories have identified or are attempting to identify and catalogue alcohol and tobacco formulas so that they can utilize them in much the same way as fingerprints are used. This data is essential for health issues to prevent consumer deception and to insure the appropriate collection of taxes. This exchange of information serves the best interests of the United States and its trading partners.

The seizures of cash, vehicles, beverage alcohol, and tobacco products during diversion investigations by ATF agents and inspectors in 1999 has resulted in over \$1.4 million being credited to the Treasury Asset Forfeiture Fund. ATF was also one of the lead agencies in a federal investigation that resulted in a payment of \$10 million to the Treasury Asset Forfeiture Fund from a company wholly-owned by a major United States cigarette manufacturer for their involvement in illegally diverting cigarettes to Canada. In FY 1999, 49 defendants were recommended for prosecution and several members of organized crime groups have been successfully prosecuted for alcohol and tobacco related criminal activity.

❖ Program: Use Electronic Commerce

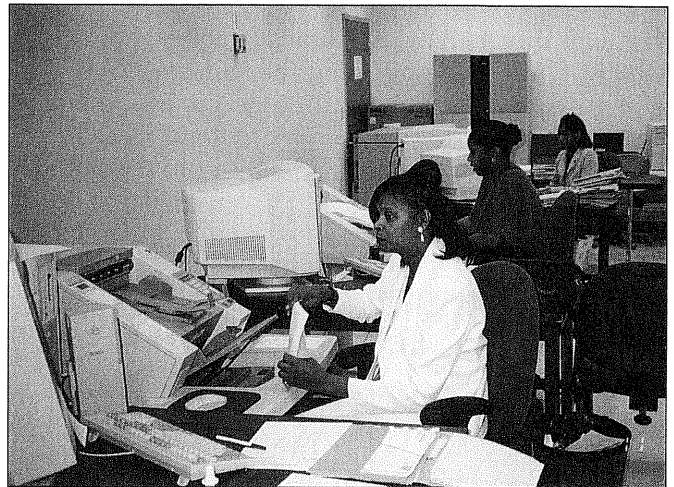
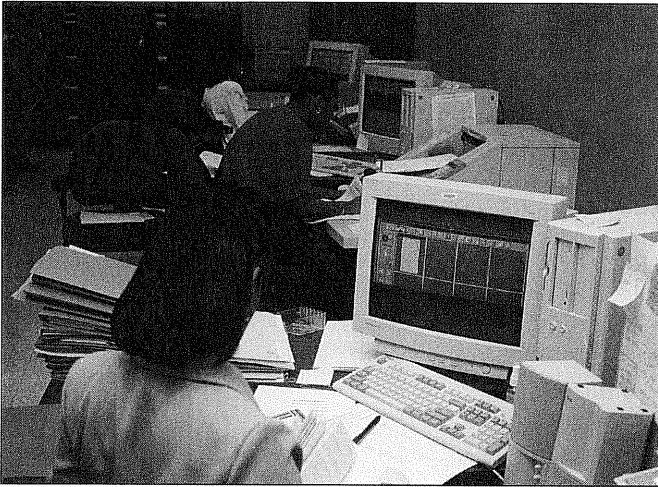
ATF continued imaging operational documents received at the National Revenue Center, and also started imaging historical documents that are maintained at the National Revenue Center. ATF studied Optical Character Recognition (OCR) of certain returns with the intent to use OCR during the next fiscal year. ATF started limited electronic filing of certain forms through a pilot program with certain industry members. This program will be expanded to reduce industry burden in compiling these forms and ATF's burden in using the information from these forms. ATF expects to complete the imaging of historical documents at the National Revenue Center for electronic availability by the end of 2000.

ATF has committed to having all of its tax and related permit databases Year 2000 (Y2K) compliant and has expended considerable effort to do so. Most programs are currently Y2K compliant or are scheduled to be compliant prior to the start of the year. ATF has issued an Industry Circular to the regulated industries concerning Y2K problems and electronic funds transfer. ATF has developed contingency plans to deal with possible problems that may be caused by Y2K.

In FY 2000, ATF will begin a project that will allow many of the revenue-related forms to be downloaded, filled in, saved electronically, and filed over the Internet. In some cases, it would allow the payment of tax over the Internet at the same

time. The electronic filing will save the taxpayer and ATF considerable time, reduce the burden to the taxpayer, and help ATF determine if the rev-

enue is properly collected. ATF has plans to develop the ability to let taxpayers pay by credit card before the end of FY 2000.



Imaging of documents at the National Revenue Center.

Performance Goals and Results

Protect the Public

Through this activity, ATF complements reducing violent crime and collecting revenue with training and prevention strategies through law enforcement and industry partnerships, and reducing public safety risk and consumer deception on regulated commodities.

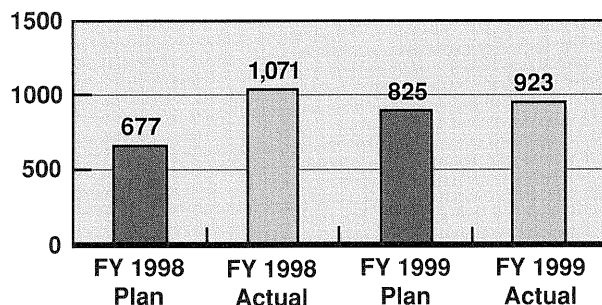
Strategic Goal: Protect the public and prevent consumer deception in ATF's regulated commodities.

Programs: This strategic goal is accomplished through three programs:

- ❖ Assure the Integrity of the Products, People, and Companies in the Marketplace
- ❖ Ensure Compliance with Laws and Regulations through Education, Inspection, and Investigation
- ❖ Inform the Public

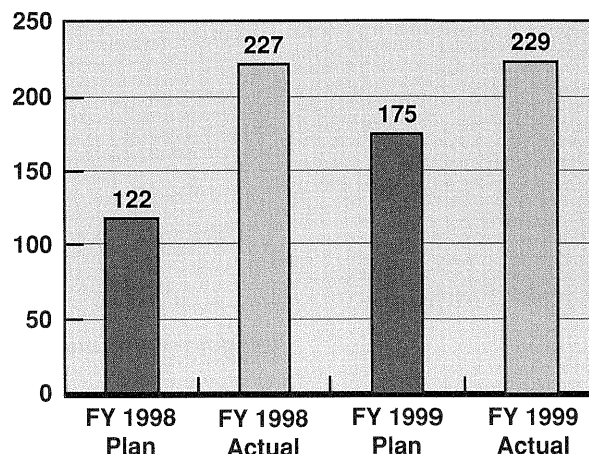
Performance Measure: Response to unsafe conditions and product deficiencies discovered (explosives). This measure tracks the number of corrections made to unsafe conditions reported to ATF and from inspection activities.

Number of Corrections Made to Unsafe Conditions Reported to ATF and from Inspection Activities



Performance Measure: The number of commodity seminars held.

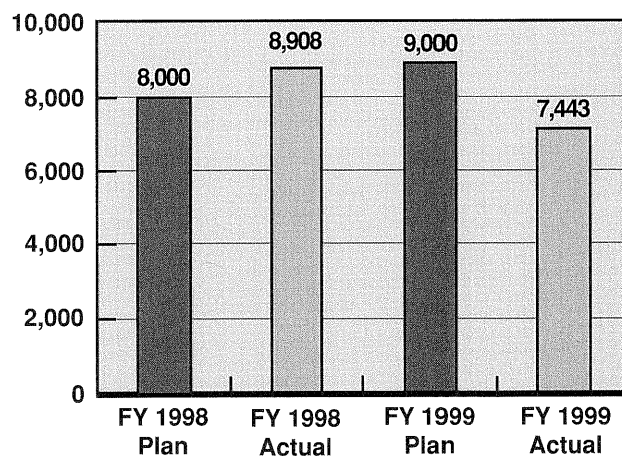
Number of Commodity Seminars Held



Commodity seminars are held to provide information to industry members, law enforcement, and the public about the laws and regulations that ATF is responsible for enforcing. These seminars are periodically given to new industry members and others to educate and inform them about recent changes in these laws and regulations.

Workload Measure: Number of inspections (explosives).

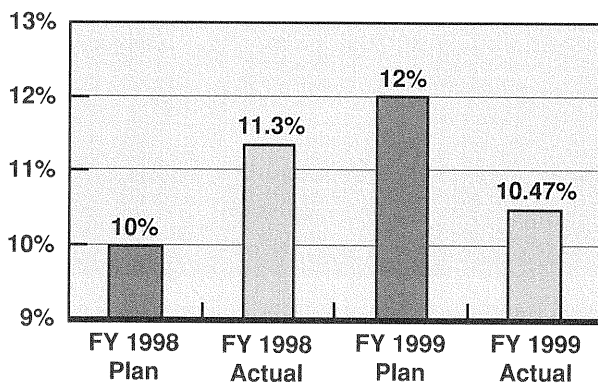
Number of Explosives Inspections



The FY 1999 Plan of 9,000 inspections (explosives) was not met, due to several factors: (1) attrition of experienced inspectors; (2) hiring of new personnel who, during the first two years of employment, underwent extensive formal classroom and on-the-job (OJT) training and were not working independently to make a significant impact on completions; and (3) the OJT instructor's productivity was reduced when conducting an inspection with a new trainee by taking more time to ensure the trainee understands the concept of the inspections and findings.

Workload Measure: Percent of population inspected (firearms).

Percentage of Firearms Licensees Inspected



Due to attrition and increase in inspector staffing as stated above, ATF was not able to meet the FY 1999 Plan of 12 percent. At midyear, the percent was adjusted to 10 percent, and ATF actually completed inspections of 10.47 percent of firearms licensees.

❖ Program: Assure the Integrity of the Products, People, and Companies in the Marketplace

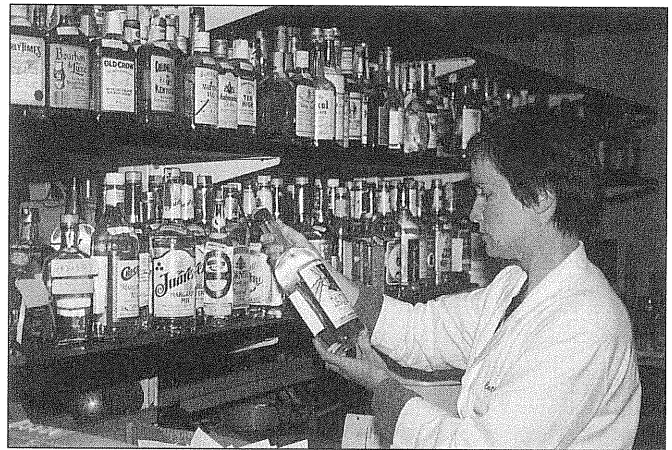
This program ensures that commodities meet safety and product identity standards, and keeps ineligible or prohibited persons from entering the regulated industries.

Assuring Alcohol Product Integrity

ATF conducts a full range of regulatory functions in the beverage alcohol industry. The Federal Alcohol Administration Act, passed shortly after the repeal of Prohibition, coupled with certain Internal Revenue Code provisions and the Alcohol

Beverage Labeling Act, authorize ATF to regulate the alcohol industry and provide protection to consumers of alcohol beverages. Each year, through the Market Basket Sampling program, ATF collects alcohol products from the marketplace for analysis by ATF's laboratories. The sampling program includes samples collected directly from producers, bottlers, and products in the market. Any problems or unsafe conditions are investigated.

ATF also investigates complaints that are received from consumers or other agencies regarding contaminated or adulterated beverage alcohol products. Product testing is conducted at the ATF laboratories which work closely with their counterparts at the United States Food and Drug Administration, state laboratories, and regulatory agencies in many foreign countries. The laboratories exchange information on existing and new analytical methods and on product contamination or adulteration issues discovered by governmental laboratories, both domestic and foreign. This level of cooperation enhances ATF's proactive stance to ensure that contaminated or adulterated products do not reach the United States marketplace.

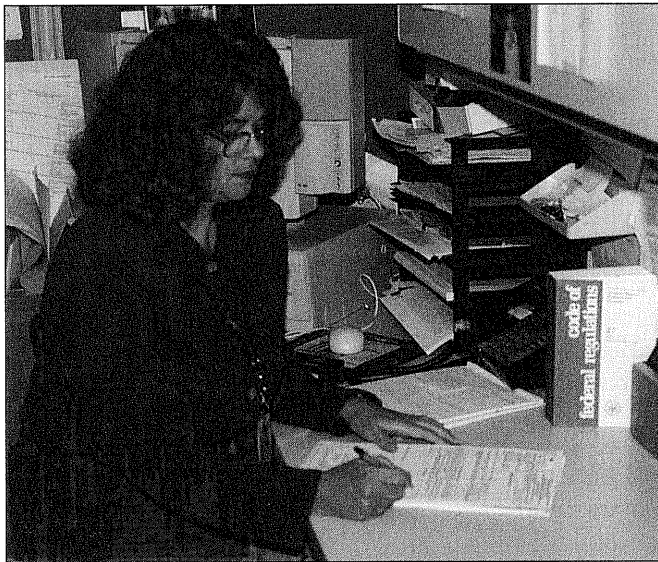


ATF Chemist checking samples of alcohol beverages.

Certificates of Label Approval

ATF is charged with protecting the consumer by preventing false or misleading claims on beverage labels and in advertising. ATF enforces the Government Health Warning Statement requirements, prohibits unbalanced and unsubstantiated health claims or misleading and deceptive claims, monitors industry advertising, and conducts investigations of suspected label fraud. With limited exceptions, ATF issues Certificates of Label Approval for all domestic and imported beverage

alcohol products offered for sale in the United States. ATF processed approximately 68,000 new and amended label applications during FY 1999.



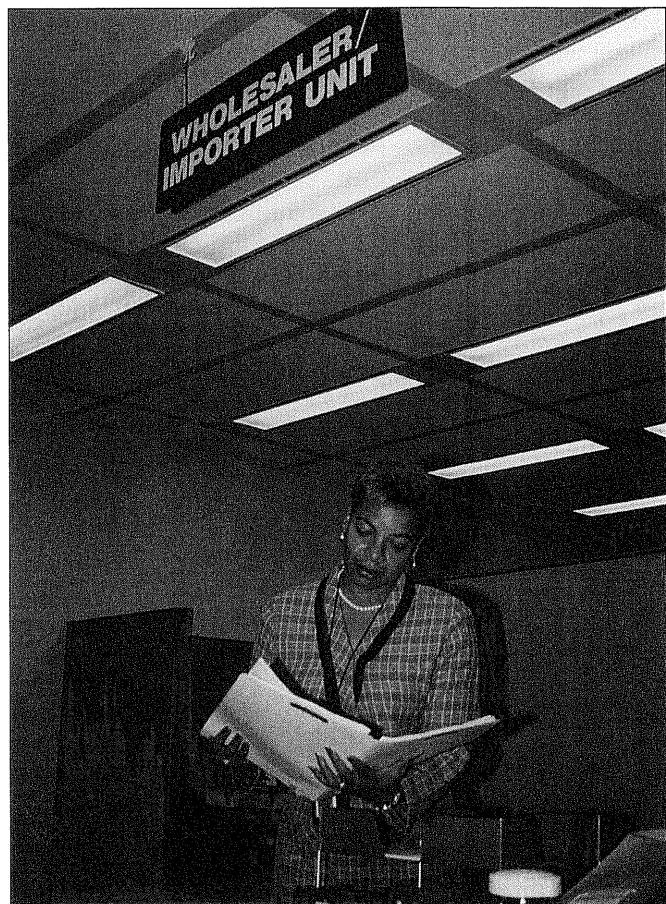
ATF Specialist reviewing application for label approval.

The Bureau remains committed to improving customer service for label and formula approvals. In FY 1999, two major initiatives were begun: the Beverage Alcohol Manual and the Beverage Alcohol Streamlining Team (BAST). The Beverage Alcohol Manual is a comprehensive guide to address labeling and associated topics; the first section on wine was provided to the industry for review and comments.

BAST identified streamlined methods of team operation to provide quality and efficient services to the alcohol industry with regards to label and formula approval. BAST principles were initiated in FY 1999 and will continue in FY 2000.

Deny Prohibited or Ineligible Persons Entry into the Regulated Industries

Alcohol and tobacco producers, packagers, wholesalers and importers of alcohol beverages, tobacco export warehouses, and users of industrial alcohol must meet certain mandatory requirements, and apply for and obtain a Federal permit. ATF examines and verifies applications, bonds, and other documents, conducts investigations of applicants, and determines eligibility for permits. Regulatory requirements are explained throughout the application process.



National Revenue Center employee examining a permit application.

The Gun Control Act of 1968 mandates that every manufacturer, importer, or dealer in firearms obtain a Federal firearms license. ATF conducts inspections of applicants for Federal firearm licenses. During these inspections, ATF inspectors explain the Federal firearm laws and regulations, and determine if the applicants are bona fide candidates for a license. Where inspection reveals conflicts with state laws and local ordinances, inspectors make referrals to the appropriate regulatory agency such as a zoning, occupancy, fire code, or law enforcement agency.

ATF recognizes the value of averting accidents and keeping explosives from the hands of those who are prohibited from possessing them. ATF enforcement provides a system of industry regulation, emphasizing a proactive approach to the problem. Similar to the firearms industry, all manufacturers, importers, and dealers are required to obtain a Federal license from ATF to conduct business, and certain users of explosives are required to obtain a Federal permit.

❖ **Program: Ensure Compliance with Laws and Regulations Through Education, Inspection, and Investigation**

Once a person or entity is licensed or obtains a permit to conduct a regulated business, ATF monitors and enforces compliance with applicable laws and regulations. Inspections of firearms licensees focus on ensuring that firearms are properly accounted for. Licensees are selected for focused inspections when data from the NTC and other information indicate that illicit trafficking may be taking place. In the explosives industry, the emphasis is on safe and secure storage of explosives as well as accountability. Alcohol and tobacco inspections check on compliance with product and trade practice provisions. Education initiatives such as industry seminars are utilized in all industries.

Federal Firearms Licenses and Inspections

ATF is responsible for enforcing the licensing provisions of Federal firearms and explosives laws and regulations. These laws mandate that every manufacturer, importer or dealer in firearms or explosives obtain a Federal Firearms License (FFL) or explosives license, and that certain users of explosives obtain a Federal permit. The National Licensing Center (NLC) is responsible for issuing these licenses and/or permits.



ATF inspectors conducting an inspection at the premises of a Federal Firearms Licensee.

ATF recognizes the value of averting accidents, keeping explosives out of the hands of individuals prohibited from possessing them, ensuring that explosives are safely and securely stored—which is vital to public safety, curbing the illegal use of firearms and explosives, and enforcing Federal firearms and explosives laws. These public safety issues warrant the work of the NLC to issue firearms and explosives licenses/permits only to those individuals who are qualified to possess them.

Once a licensee is engaged in business, inspectors ensure the licensee's compliance with Federal laws and specific recordkeeping regulations. ATF enforces the licensing provisions of the Gun Control Act of 1968 by conducting routine on-premises inspections, including focused inspections on problem areas throughout the United States.

ATF implemented procedures for routinely providing the Chief Law Enforcement Officer in each jurisdiction information on the status of Federal Firearms Licensees in that area. Working in partnership with state and local law enforcement officials, ATF can effectively address licensing and illegal firearms trafficking problems.

Alcohol Industry Inspections

ATF inspects alcohol plants (distilleries, wineries, and breweries) to assure that products are manufactured in keeping with approved formula processes so that products fulfill labeling and advertising claims. Samples of manufactured products are collected and submitted to the ATF Laboratories for analysis to assure product compliance.



ATF inspectors checking bottling line at a U.S. Distillery.

ATF investigates anti-competitive business practices between alcohol beverage suppliers and retailers to preserve the retailers' economic independence and protect the consumer.

Alcohol Trade Issues

The solidification of the European Union, the emergence of new Pacific Rim economies, and the movement of former Soviet States to market economies have had a major influence on the world economy. While this global economy provides new opportunities for U.S. producers of beverage alcohol products, the changing political and economic landscape also produces discriminatory trade barriers that limit market access to U.S. manufacturers. ATF assists U.S. businesses in overcoming trade barriers through direct intervention with foreign governments, and by supporting the United States Trade Representative in negotiations concerning the North American Free Trade Agreement, the European Union and the World Trade Organization.

ATF also monitors and analyzes changes in foreign trade and political policies to anticipate and overcome potential barriers to U.S. interests. ATF represents the domestic wine and brandy interests through membership and participation in the International Organization of Vine and Wine, and assists the governments of developing world market economies to establish effective revenue collection models through training courses offered in cooperation with the Department of State. The ATF laboratories and the laboratories of U.S. trading partners routinely share scientific methods and information on alcohol products being tested.

The results of this international activity have been greater access to international markets for U.S. alcohol beverage exporters and increased acceptance of U.S. production practices by countries reluctant to approve new production techniques. For example, the number of United States products requiring certification that gained entry into foreign markets due to the efforts of ATF were 6,881 in FY 1998 and 5,626 in FY 1999.

Explosives Licenses/Permits and Inspections

ATF maintains a regular program of on-site inspections to ensure that explosives are stored in approved facilities, which are secure from theft and located at prescribed distances from inhabited buildings, railways, and roads. These inspections ensure that the licensees and permittees

keep accurate records of the receipt and disposition of explosive materials which are verified through actual inventories of explosives in storage. Unusual discrepancies in records are referred immediately to the appropriate office for further investigation. Inspectors also conduct "forward trace" inquiries on persons who purchase explosives without the benefit of a license or permit for "same day use with no overnight storage."

ATF initiated a program that requires each field area office to notify the local fire department of licensees/permittees storing explosive materials, and the location of the storage. This was done to minimize accidental injury to fire officials fighting fires in buildings or structures that may house explosive materials.

Industry Seminars

ATF conducts seminars for firearms and explosive permittees and licensees, providing current information on the laws and regulations pertaining to these commodities. Through these seminars, ATF has fostered partnerships with firearms and explosive industry members to prevent tragedies stemming from the illegal use of firearms and explosives. Seminar attendees include industry officials, licensees, permittees, and State and local law enforcement officials.

ATF also conducts seminars for alcohol and tobacco permittees. These seminars focus on current market trends, compliance concerns, changes in laws, regulations or Bureau policies, and industry-raised issues. In partnership with the states, the seminars are conducted jointly with the state alcohol beverage control agencies to provide the total compliance enforcement picture to those in attendance. In FY 1999, ATF conducted 28 seminars.

National Firearms Act

The National Firearms Act requires that certain firearms be registered in the National Firearms Registration and Transfer Record. Firearms requiring registration are machine guns, silencers, short-barreled rifles and shotguns, destructive devices, and certain concealable weapons classified as "any other weapons." ATF processes all applications to make, export, transfer, transport, and register National Firearms Act firearms, as well as notices of the National Firearms Act firearms manufactured or imported. The registration information supports the field programs to inspect firearms licenses and to conduct criminal investi-

gations. The NFA Branch continually provides technical information to industry and the public.

Firearms and Ammunition Importation

ATF regulates the importation of firearms, ammunition, and other defense-related articles through the issuance of import permits, and maintains close liaison with the Department of State to ensure that the permits issued do not conflict with the foreign policy and national security interests of the United States. The Department of State recently provided ATF with written guidelines that specify how ATF should process applications for permits to import military defense articles of U.S. origin. Their guidelines were issued for the purpose of ensuring that the return of these types of defense articles to the U.S. is consistent with their statutory and foreign policy obligations.

❖ Program: Inform the Public

This program publicizes information on ATF policies and regulations, product safety, and theft prevention using the Internet, trade publications, seminars, and industry meetings and works in partnership with others to inform, advise, and educate the public.

Industry and State Partnerships

ATF established liaison with several governmental agencies working toward a common goal of public safety in the explosives industry. The Department of Transportation is supplying ATF with a list of its product approval numbers for use in determining the appropriate classification of explosive materials entering into commerce either through domestic production or through importation. ATF furthered its relationship with industry associations such as the Institute of Makers of Explosives and the American Pyrotechnic Association to develop

an Advanced Explosives Training class for all ATF inspectors. The Consumer Products Safety Commission and Department of Transportation have also been instrumental in providing instruction at the Advanced Explosives Training sessions. All classes are conducted at Fort McClellan, Alabama.

ATF established relationships with the Federal Aviation Administration (FAA) to explore the mutual regulatory oversight required in the interaction of commercial site operators for commercial space launchers. Launch site operators may include state government agencies, state-chartered entities, state-sponsored entities, and commercial entities. At FAA's request, ATF has been inspecting explosive storage magazines at specified major airports. ATF has established a relationship with the Consumer Products Safety Commission to regulate the fireworks industry effectively. The Bureau is also exploring refinement of its relationship with the Mine Safety and Health Agency to share more information regarding explosives and the coal mining industry.

ATF is working with the National Shooting Sports Foundation on a variety of firearms commerce related issues. These include the development of joint seminars for firearms dealers on firearms law and regulations, best business practices and licensee safety and security issues. We are also looking at ways to educate firearms dealers on 'straw purchaser' recognition.

ATF continues to work closely with its counterparts in the state liquor control and taxation agencies, and industry groups with regard to the diversion of alcohol and tobacco products. ATF also has become a center for industry-related information by making label approval data available through its Internet site.

Performance Goals and Results

Bureau-wide Programs

ATF continued to emphasize a strong and efficient organization in order to accomplish its programmatic goals effectively. The programs that support ATF's three major activities; Reduce Violent Crime, Collect Revenue, and Protect the Public, are highlighted below:

TRAINING

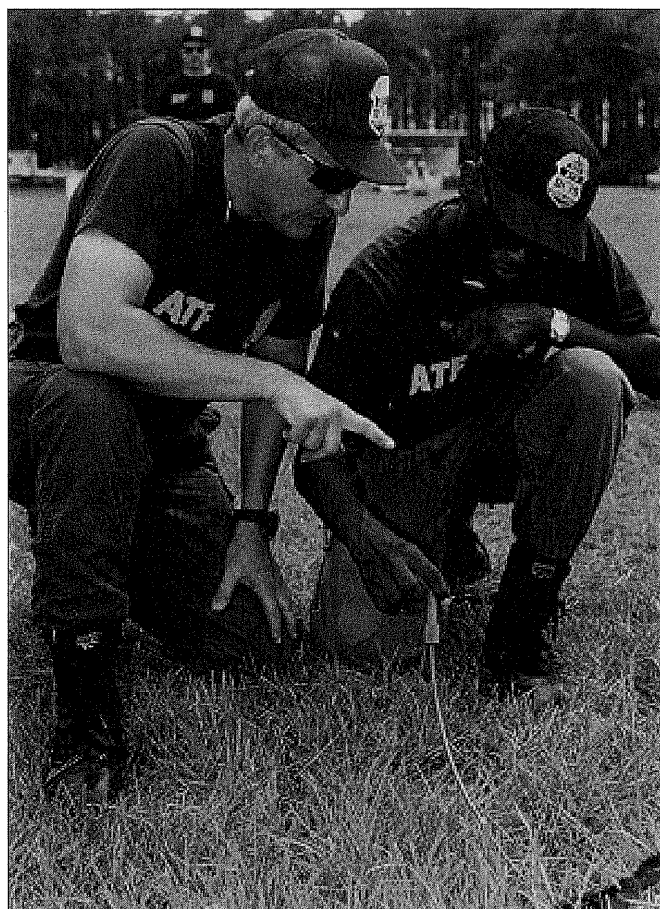
The Office of Training and Professional Development's (TPD) high quality, innovative training programs improve the performance of the Bureau's employees, and enhance the skills of thousands of State, local, and international personnel each year, all in support of ATF's Strategic Plan. These programs are delivered at Bureau Headquarters, the ATF Academy, field divisions, or at various satellite training sites across the country and the world. This year, TPD was honored by the Treasury Department as the model training organization, and the group has served as the benchmark for two other Treasury bureaus.

New Professional Training (NPT) Program CORE Training

The first phase of NPT, which was originally designed for all new ATF employees who were promoted or hired into two-grade interval positions with less than two years of experience at ATF, is now open to all new ATF employees. The overall objective is to orient employees to their roles and responsibilities as they relate to others and the overall mission of ATF. CORE training promotes interaction between ATF occupations and starts the process of building employees' pride in ATF and in one another. Ten classes were conducted at Bureau Headquarters with 205 students participating.

New Professional Joint Agent/ Inspector Training

A record number of new ATF inspectors and special agents completed NPT at the ATF Academy. Joint agent/inspector training consisted of three weeks of training on topics of shared responsibility. NPT affords agents and inspectors the opportunity to build solid working relationships and to learn information uniformly relative to their collaborative responsibilities. At the conclusion of



New Professional Training (NPT) explosives training for agents at the ATF Academy.

joint agent/inspector training, agents receive another 10 weeks and inspectors another six weeks of occupation-specific training on technical issues. There were a total of 168 agents and 72 inspectors trained from January through September.

NPT for New Revenue (Tax) Specialist

NPT for New Revenue Specialists is a three week course that gives ATF's new revenue specialists an overview of the alcohol, tobacco, and firearms industries that they regulate. Topics include the tax system, legal, distilleries, breweries, wineries, Firearms and Ammunition Excise Tax (FAET), interviewing, diversion, and ATF databases. Three courses were held and 69 alcohol and tobacco tax specialists were trained.

Other FY 1999 accomplishments included the following:

- Provided 11,183 training courses to ATF employees, including mandatory training requirements, technical, occupational, leadership and employee career programs;
- Provided training to 42,202 other Federal, State, local, international law enforcement officers, industry personnel, civilians and civic organizations; topics included arson investigation, explosives identification and regulation, firearms trafficking/identification, gangs, post-blast investigations, advanced interviewing techniques, and firearms serial restoration;
- Managed the re-certification of 163 Certified Explosives Specialists (CES); and the re-certification of 73 Certified Fire Investigators (CFIs) to contribute effectively to explosives and arson investigations;
- Conducted a two-week Basic Crisis Negotiation Training for newly selected negotiators; ATF's school served as the "benchmark" course for other Federal agencies;
- Conducted four Critical Incident Management Systems executive training sessions. Joint field division training sessions began in February and the Critical Incident Management training session will continue until December 1999. This series of training programs, designed by ATF in collaboration with Science Applications International Corporation (SAIC), exposed all 23 field divisions to the theory and principles of a standardized Critical Incident Management system for ATF. ATF's system and associated training have now been designated as the standard to be met by all Treasury enforcement bureaus;
- Produced a special video entitled "A Mother's Tears," in response to inquiries from ATF, State and local police departments, and school systems for an "explosives safety" program for juveniles. This video is an interactive explosive safety video for students, parents and educators. "A Mother's Tears" was selected from over 1,000 national and international entries and was bestowed the "Videographer's Award of Distinction" for instructional programming;
- Developed and conducted five advanced tactical schools for the regional ATF Special Response Teams (SRTs), equipping them with the latest in tactical techniques;
- Planned and executed the Annual Fraternal Order of Police (FOP)/ATF Gang Conference attended by more than 250 state and local officers;
- Conducted the annual International Firearms Trafficking seminar in Toronto, Canada; because of its caliber, the course is mandatory training for all personnel in several Canadian law enforcement departments;
- Provided eight Youth Crime Gun Interdiction Initiative (YCGII) training presentations to 436 Federal, State, and local law enforcement officers. Two additional YCGII presentations were made to 225 ATF agents, ATF inspectors, State and local law enforcement officers, and other non-law enforcement professionals;
- Provided international training courses to more than 500 participants, from more than 45 different countries, which included basic and advanced firearms and explosives identification, post-blast investigation, and alcohol and tobacco diversion;
- Oversaw the construction of the ATF Academy arson burn cells to be used exclusively for NPT and arson state and local training programs;
- Constructed and dedicated an explosives classroom for the sole use of ATF at FLETC to train ATF, state, local, and international students;
- Delivered SEMTEX (Seminar in Explosives and Bomb Threat Management) at four U.S. airports to more than 600 law enforcement and airline/airport security personnel;
- Developed "Close Quarter Countermeasures" (CQC) training for agents and "Escape and Evasion" training for inspectors; conducted initial training of certified instructors with the goal of training every agent and inspector within the next two years;



ATF agents engage in close-quarter countermeasures (CQC) practical exercise.

- Revised ATF's Use of Force Policy and created ATF's Firearms Training Guide, which standardizes agent firearms training nationwide. The program and lesson have been benchmarked by the FBI and the Secret Service;
- Developed a National Academy to train Federal, State, and local firearm and toolmark examiners in partnership with the Association of Firearms and Toolmark Examiners (AFTE). The overall objective of this intensive program is to train potential apprenticeship candidates to be firearms examiners. The first 16-week class began in August 1999.

SCIENCE AND TECHNOLOGY

The Office of Science and Technology/Chief Information Officer (CIO) plays a key role in support of the Bureau's enforcement and revenue programs. The CIO also serves as the senior executive for the Year 2000 Century Date Change Project, an aggressive multi-year, inter-bureau effort to identify and to bring ATF's information technology (IT) and non-IT systems into compliance before the new millennium.

Information Infrastructure

In FY 1998, ATF modernized its IT through deployment of the Enterprise Systems Architecture (ESA), an infrastructure that ensures ATF's strategic and day-to-day business requirements are supported by IT that is secure, reliable, available, Y2K date compliant, and maintainable. ESA provides ATF with the ability to collect, clarify, and communicate the information needed to accomplish its mission to reduce violent crime, collect revenue, and protect the public. In October 1997, ATF

awarded a blanket purchase agreement for "seat management" services. Under this unified approach to the management, operation, and maintenance of desktop computing services and the associated network infrastructure, the contractor provides the entire suite of hardware, including: desktop and notebook personal computers (PCs); printers; servers; commercial off-the-shelf (COTS) software and support services in the areas of networks management; operations; training; help desk services and other maintenance support. ATF leases these services as a utility for which ATF pays on a "per seat" basis. The lease approach allows ATF to upgrade the IT infrastructure and to acquire the current technology without having to incur capital ownership costs. As new products become available via the GSA schedule, the seat management contractor is able to make technology "refreshments" available to ATF through modifications of the blanket purchase agreement. This concept should provide cost savings and productivity gains because the common operating environment is continually managed and maintained.

ESA supports approximately 4,100 employees and 1,200 contractor workstations nationwide. Field personnel, i.e., agents, inspectors, and auditors, use notebook PCs with docking stations, and employees and contractor personnel assigned to offices are equipped with desktop PCs. All employee workstations are connected via local area networks (LANs). The LANs are connected via a high-speed, wide-area network that serves as the electronic backbone of ATF's data communications. Every employee is equipped with a Pentium or Pentium II computer running Microsoft Corporation's Windows 95 operating system and the Office 97 Professional Office Suite, anti-virus software, Microsoft Exchange electronic mail, and security software to encrypt data stored on notebook PCs.

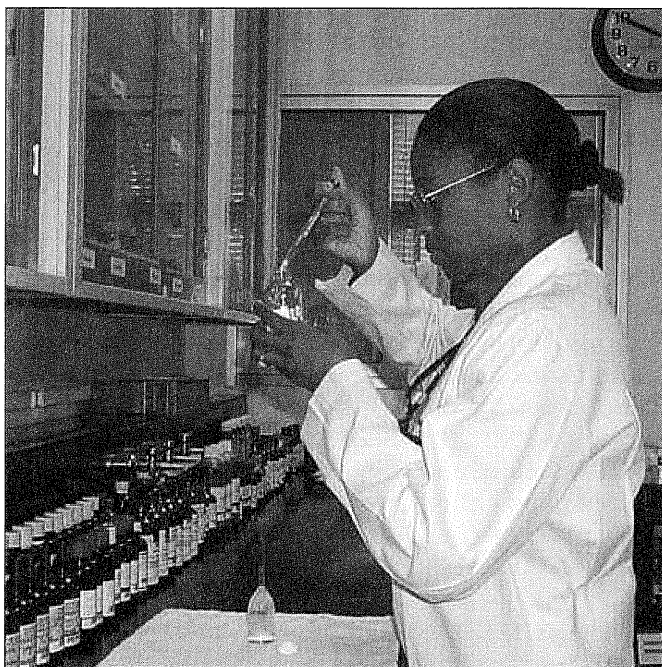
Data Communications Infrastructure

A Frame Relay Network Upgrade Project, initiated in November 1998 and completed in April 1999, consisted of designing, coordinating, implementing, and testing the upgrade of the entire wide area frame relay network. While transparent to the ATF user community, this upgrade increased minimum bandwidth of ATF's wide-area network from 32 kilobytes to 128 Kbs to approximately 200 ATF points of presence in the continental United States. The upgrade provided ATF with the ability to place into production and support many significant software engineering investments such

as ATF's National Field Office Case Information System (N-FOCIS), Forensics Automated Case and Exam Tracking System (FACETS), Firearms Tracing System (FTSWEB), and Online-LEAD. This upgrade has also enabled applications such as Exchange Mail and Tivoli to function reliably on the wide-area network. The re-engineering effort provides backup and enhanced stability of the network. The project was a major success by implementing state-of-the-art applications through the network in support of ATF's mission activities.

Laboratory Services

In FY 1999, Laboratory Services, with the support of ATF's Office of Training and Professional Development and the Association of Firearm and Toolmark Examiners, established the ATF National Firearm Examiner Academy in partnership with other Federal, State, and local crime laboratories. The first 16-week class commenced in August 1999. In FY 1999, Laboratory Services also signed a memorandum of understanding with the Virginia Department of Forensic Services related to the examination of gunshot residue evidence.



ATF laboratory chemist analyzes nonbeverage product sample.

In FY 1999, Laboratory Services continued its support and leadership in partnerships with the University of Central Florida (arson and explosives methods); the University of Maryland (fire research center development and staffing); and the National Forensic Science Technology Center (arson training) in St. Petersburg, Florida. In FY 1999, Labora-

tory Services personnel completed 2,673 forensic cases, analyzed 7,980 alcohol and tobacco product samples and processed 7,510 alcohol product formula applications. In addition, Laboratory Services personnel provided 410 days of instruction to ATF and other Federal, State and local law enforcement agencies; spent 176 days providing expert testimony in courts of law; and spent 324 days providing scientific advice and support at ATF-investigated crime scenes.

Audit Services

Audit Services provides an important investigative tool for solving financially-motivated crimes such as arson and bombings-for-profit, and the illegal diversion of alcohol and tobacco products. Forensic auditors investigate and determine the financial condition of businesses or other criminal activities/entities, and their ownership; develop investigative leads and criminal charges through examinations of financial records/transactions; participate in interviews; determine varying categories of fraud; provide pre-trial briefings to the U.S. Attorneys' and State Prosecutors' office; and testify as expert witnesses at trials. This service has continued to expand in order to respond to financial investigations in firearms and drug trafficking, gang-related activities, and money laundering schemes, and has contributed to successful prosecutions in these cases. In FY 1999, eight forensic auditors completed the basic and advanced classes in Computer Investigative Specialist (CIS) training at the Federal Law Enforcement Training Center in Glynco, Georgia, as well as pre-course training in Dallas, Texas. In FY 1999, Audit Services personnel addressed nearly 30 conferences and meetings hosted by State and local fire service and law enforcement agencies, State universities, professional associations, and members of the financial services and insurance industries. Topics addressed at these meetings included financial motives for arson, money laundering, arson for profit, arson for prosecutors, and the financial aspects of church fire investigations.

Technical Support

Technical Support to field agents and inspectors is provided by the Technical Support Division which is comprised of the Technical Operations Branch (TOB), the Radio Branch, and the Visual Information Branch.

TOB has three sections: the Electronic Surveillance/Technical Surveillance Countermeasure Section, the Computer Forensics Section, and a

Logistics Section. TOB purchases investigative equipment, investigative supplies, agent safety equipment including body armor, law enforcement vehicles, and electronic surveillance equipment. TOB evaluates new technology, and trains tactical operations officers and technical enforcement officers.

The Computer Forensics Section provides trained personnel who extract information from seized computers and assist in computer crime and internet investigations. In FY 1999, the TOB hosted the first national planning and technical training conference for the 14 ATF special agents, one inspector, and eight forensic auditors who received training as Computer Investigative Specialists.

The Radio Branch provides a national wireless communications system which is maintained by a network of deployed radio technicians who maintain the ATF Radio infrastructure and provide tactical communication assistance.

The Visual Information Branch provides audio, video, photography and graphic services to ATF.

FY 1999 highlights included:

- Implemented a National Uniform Contract which provides uniforms, supplies, and safety equipment to Special Agents and Inspectors;
- Processed 2,717 requests for audio/visual, graphics, and photographic support from internal ATF customers as well as external customers including the Department of the Treasury, and State and local law enforcement agencies.

LIAISON AND PUBLIC INFORMATION

The Liaison and Public Information office serves as principal advisor on matters relating to the public, media, and industry information, and policies and compliance with the Freedom of Information and Privacy Acts. The office establishes and maintains Embassy contacts and police official liaisons, and reviews responses to all inquiries received from the Department of the Treasury and Congressional offices, as well as correspondence for the Director.

ATF has expanded its Internet site to include ATF and Treasury reports, field division web sites, links

to the Federal Register, access to on-line alcohol labels, and bomb threat prevention information. The web site continues to be positively received. Visits to the site have increased from 2,500 per day in 1998 to more than 120,000 per day. Congressional offices, the public, and members of the industries that ATF regulates visit the site daily. In 1999, ATF received approximately 13,000 e-mail queries from the public, the media, and industry members. ATF's Intranet service is an internal "bulletin board" designed and updated daily to provide information on ATF's activities, programs, forms, publications, current events, and initiatives to ATF employees. This service is also linked to the Treasury Intranet.

INSPECTION

ATF maintains an Office of Inspection with primary responsibilities to plan, direct, and coordinate inspection and internal affairs activities. It appraises the effectiveness of operations, assesses the quality of management and supervision, and determines adherence to organizational policies, regulations, and procedures. The Office of Inspection is also responsible for conducting employee integrity investigations, either criminal or administrative, as well as other sensitive investigations assigned by the ATF Director, and conducting all background investigations on new ATF hires.

SPECIAL OPERATIONS

This division within the Office of Field Operations provides support services including polygraph examinations; airborne operations; assistance for undercover investigations; coordination of mission support for major events such as the Olympic Games, for the U.S. Secret Service, the Department of State, and the United Nations; participation in gang enforcement programs; management of the Witness Security Program; and coordination of ATF's Critical Incident Management System.

During FY 1999, polygraph program examiners conducted approximately 400 examinations of suspects, informants, and witnesses. Of the tests conducted, conclusive opinions were rendered over 90 percent of the time.

The National Communications Center/Enforcement Operations Center provides Bureau-wide tactical communications and record communications support and access to various law enforcement information databases. During FY 1999, the National Communications Center/Enforcement

Operations Center received and assisted in 316 hotline calls and 1,786 Federal firearms licensee calls, and 60 National Response Team/Special Response Team callouts. Additionally, this Branch processed 119 Be Aware For America Program calls reporting suspicious activity concerning ammonium nitrate, and 1,636 National Instant Criminal Background Check System (NICS) referrals.

Critical Incident Management support coordinates the Special Response Team, Crisis Negotiations Program, and Operational Medical Support Program. During FY 1999, a full-time contingent of Special Response Team personnel was established. Each of the five regional Special Response Teams include a supervisor, an investigative assistant, and nine operators. In addition, ATF implemented a Critical Incident Management System (CIMS), which is a uniform approach to prepare for, respond to, and support critical incidents, major/complex investigations, and significant enforcement operations. CIMS has standardized ATF's efforts to integrate other Federal, State and local emergency resources in response to critical incidents. In FY 1999, the Critical Incident Management Branch assisted in implementing CIMS training for all field managers and Headquarters personnel.

The Enforcement Support Program oversees ATF's participation in the Interagency Crime Drug Enforcement (ICDE) Task Force Program. ATF's existing enforcement strategies direct special agents to target violent organizations using firearms, arson, or explosives, and to target active felons who are violent recidivists using or possessing firearms or explosives. Per ICDE guidelines, ATF has established nine full-time coordinators who are collocated in office space furnished by the core city U.S. attorney's office. There is also one program manager assigned to ATF Headquarters. ATF receives funding on a reimbursable basis to support this program. The Enforcement Support Branch also oversees ATF's support to the U.S. Secret Service and the Department of State with reference to major events. The Branch coordinated ATF's support of the United Nations General Assembly, the 50th anniversary of NATO, and training for the 2000 Presidential campaign.

STRATEGIC INTELLIGENCE

The critical tool of strategic intelligence support remains a vital force multiplier by which ATF successfully accomplishes its strategic goals of reducing violent crime, collecting revenue, and

protecting the public. Major milestones in this third year of ATF's five year Strategic Intelligence Plan which were reached in FY 1999 include:

Intelligence Division Re-engineering

The Intelligence Division was re-engineered and expanded from two to five branches to serve the needs of the Bureau and its customers better. These branches are:

- Domestic Operations Branch
- Major Case Branch
- Transnational Analysis Branch
- Domestic Analysis Branch
- Intelligence Systems Branch

Five Branch Chiefs who constitute a management team that ensure a horizontal business process of mutual support were recruited and selected to head these branches. Additionally, a Deputy Division Chief was appointed to assist the Division Chief in oversight and coordination of this expanded structure.

Field Intelligence Capability Expansion

In FY 1999, ATF began establishing Intelligence Field Offices at each of its 23 field divisions strategically located throughout the United States. These intelligence field offices meld the training and experience of special agents, intelligence research specialists, industry operations inspectors, and support staff who focus on providing tactical intelligence support for their respective field divisions and their external law enforcement partners. Each intelligence field office is supervised by a special agent group supervisor who is a member of the field division's management team. The intelligence field offices will be coordinated by, and will work in conjunction with, the Intelligence Division to form a bureau-wide intelligence infrastructure. Recruitment, selection, and training efforts are currently underway to fully staff these offices.

Partnerships

ATF maintains intelligence liaison positions with the National Drug Intelligence Center (NDIC), El Paso Intelligence Center (EPIC), Financial Crime Enforcement Network (FinCEN), Interpol, the National Security Agency (NSA), the Central Intelligence Agency (CIA), and the Federal Bureau of Investigation Counter Terrorism Center (FBI/CTC). Furthermore, ATF maintains a Memorandum of

Understanding (MOU) with the nation's six Regional Information Sharing Systems (RISS) which represent thousands of state and local law enforcement agencies, pledging to share unique and vital intelligence resources. These external partners are a key component of ATF's Strategic Intelligence Plan and the means by which ATF maximally contributes to the nation's law enforcement and intelligence communities. During FY 1999, the Intelligence Division established a Firearm Trafficking Desk within EPIC as a service to EPIC members. This unit initiates firearm traces from information collected by EPIC, and forwards the results along with firearm trafficking leads to the originating agencies and appropriate ATF field offices.

Technological Advancements

In FY 1999, Phase 1 of a multi-phased state-of-the-art automated case management/intelligence reporting system entitled N-FOCIS (National Field Office Case Information Systems) was implemented bureau-wide. N-FOCIS is comprised of two companion applications entitled N-FORCE for special agents, and N-SPECT for industry operations inspectors. Both eliminate redundant manual data entry on hardcopy forms and provide a comprehensive reporting and information management application in a secure electronic environment. N-FOCIS constitutes an on-line case management system and electronic central repository of information that allows ATF to analyze and exploit investigative/intelligence information fully to achieve its strategic goals of reducing violent crime, collecting revenue, and preventing violent crime. N-FOCIS epitomizes the strength and unique value of ATF's combined, complementary criminal and industry operations enforcement missions. During FY 1999, special agents, investigative assistants, and inspectors in 23 field divisions were trained on the use of the N-FOCIS applications. Over 4,000 investigations initiated in FY 1999 were entered into N-FOCIS. Plans are underway to expand the N-FOCIS functionality and to integrate N-FOCIS with several key ATF applications including the National Revenue Center, the National Tracing Center, National Arson and Explosive Repository, and the Intelligence Division's Text Management System. This integration plan establishes N-FOCIS as the Bureau's information backbone supporting its Strategic Goals.

Noteworthy accomplishments during FY 1999 include:

- Bureau-wide deployment and training of the N-FOCIS programs, N-SPECT and N-FORCE;
- Approximately 4,300 investigations entered into N-FORCE;
- 2,800 users trained in N-FORCE and 750 in N-SPECT;
- Initial concept design for Phases II and III system enhancements (i.e., Arson/Explosives repository integration, Criminal Enforcement Management Information System (CEMIS) data conversion, increased management report functionality, additional systems integration, etc.);
- Activating Intelligence Response Teams in support of the following major investigations/events:
 - Eric Rudolph manhunt in Andrews, North Carolina – 5,663 investigative leads tracked;
 - Littleton, Colorado, high school shooting incident – 69 investigative leads tracked;
 - Vail, Colorado, ski resort arson – 328 investigative leads tracked;
 - Seattle, Washington, serial arsonist – 300 investigative leads tracked;
 - Indiana County courthouse bombing incident – 150 investigative leads tracked;
 - Chicago Latin Kings street gang – 236 investigative leads tracked;
 - Atlanta serial church arsons – 250 investigative leads tracked;
 - American University, Washington, DC, arson – 106 investigative leads tracked;
 - Arson murder in Wheeling, West Virginia, that killed five children – 236 investigative leads tracked;
 - Church arson (Jay Ballinger, serial church arsonist) in which a fireman was killed – currently under indictment on 29 counts;
 - The NATO 50 event in Washington, DC;
 - The murder trial of the violent anti-government Kehoe brothers in Little Rock, Arkansas;
- Assisted the Department of Energy (DOE) with on-site threat assessments of six special nuclear materials facilities across the United States;
- Prepared the 3rd Annual National Church Arson Task Force Report to be released under the signature of the President of the United States;

- Reviewed over 107,000 intelligence community electronic messages;
- Provided 35 foreign travel briefs to ATF personnel travelling internationally;
- Assumed a lead role in the National Violence Against Health Care Provider Task Force, wherein 1,350 investigative leads have been analyzed since the Task Force's inception in December 1998;
- Developed and presented intelligence training curriculum to all ATF intelligence officers, intelligence research specialists, newly hired special agents and inspectors undergoing New Professional Training, personnel undergoing alcohol and tobacco diversion investigation training, special agent supervisors at the first-line and mid-management level, and all personnel undergoing Critical Incident Management and Response Team training.

LEGAL

ATF's Office of Chief Counsel provides a full range of legal support to the agency's varied missions. The Chief Counsel is a member of the Executive Staff and principal legal advisor for the Director, Deputy Director, and Assistant Directors. The Chief Counsel operates under general direction of the General Counsel and the Associate General Counsel (Enforcement) of the Department of the Treasury.

Attorneys advise ATF personnel on issues related to alcohol, tobacco, firearms, explosives, arson, and administrative law. They also prepare, review, or assist in the preparation of proposed legislation, regulations, and executive orders relating to the laws affecting and enforced by ATF; make recommendations to the Department of Justice concerning litigation involving ATF; and represent ATF in administrative proceedings.

In December 1997, ATF's Strategic Leadership Team approved a plan to place attorneys in each field division office. The Division Counsel in each field division office would serve as a member of the Division Director's field management team. In 1999, ATF has made significant progress in realizing this goal. The attorneys in place are not only contributing to the quality of the product produced by the field investigators, but they have contributed to the effective management of field divisions. ATF has attorneys in 15 of 23 field divisions and plans to have all of its field divisions

staffed with attorneys by FY 2003. The integration of legal services into the field structure will serve ATF well while encountering the ever-increasing challenges presented by ATF's mission.

MANAGEMENT

The Office of Management provides leadership and works in partnership with other senior Bureau officials in executing ATF's core business processes (finance, human resources, procurement, and administrative programs) to support the Bureau's mission.

In Fiscal Year 1999, the office focused on operating in a fiscally sound manner, meeting external mandates, protecting Bureau resources, and improving customer service. Specific accomplishments include:

- Led the effort that resulted in ATF receiving an Unqualified Audit Opinion for the fifth consecutive year;
- Implemented the Welfare to Work program, a Presidential initiative designed to provide individuals an opportunity to learn skills and good work habits. (Employees are hired at the GS-01 level, under a temporary appointment and may be converted to a permanent appointment after three years of qualifying service and satisfactory performance. Positions filled under this program count against the Treasury's FTE allowance). The Bureau hired five employees under this program in FY 1999. Additionally, a new applicant database was developed to enhance and expedite this hiring process in the future;
- Converted ATF's financial system from a mainframe to client-server environment and deployed the system to over 500 users nationwide. This conversion moves ATF closer to its financial management vision of 100% electronic transaction processing, real time financial data, and integration with other major systems. This conversion will also:
 - eliminate "cuff" financial records to remove audit findings associated with the reconciliation of two systems;
 - facilitate cost accounting data on Bureau programs;
 - allow Program Managers to incorporate financial data into everyday decision making;

<ul style="list-style-type: none"> ● make ATF compliant with Federal Y2K and electronic commerce standards; and ● handle financial documents electronically; <ul style="list-style-type: none"> ☛ Administered the transition from the American Express and Rocky Mountain Visa credit cards, for travel and purchase, respectively, to Citibank MasterCard. The new MasterCards became effective on November 30, 1998. Over 5,000 combined travel and small purchase cardholders were converted. Procedures were also published for the cardholders; ☛ Implemented a process whereby all ATF employees were notified electronically when travel reimbursements were deposited into their bank accounts; ☛ Expanded the time and attendance system coding to track payroll costs at the project level in the last quarter of FY 1999 – thus moving closer to capturing all expenses by Bureau activity, program, and project – and production of cost of operations financial statements; ☛ Chaired the newly established E-Commerce Subcommittee of the Treasury Chief Financial Officer's Council; ☛ Modified its organizational coding structure to support the finances of a new Field Operations structure comprised of over 2,000 ATF employees; ☛ Developed and implemented a vault inventory (bar code) system at two major field sites to track asset forfeiture and seized property more efficiently; ☛ Conducted three Asset Forfeiture and Seized Property Conferences attended by 170 ATF supervisors; ☛ Initiated and performed a Job Analysis Study of all special agent positions to improve the hiring, performance reviews, and promotion assessment processes. A draft of the job analysis report will be issued in late Fall of 1999, at which time ATF can begin to work on the planned follow-on initiatives, such as revising the appraisal system for special agents and designing a promotion assessment system; ☛ Substantial progress was made on the acquisition of land for ATF's new National Laboratory 	<p>and Fire Research Center. The intended construction is to begin in January 2000, with planned occupancy in the summer of 2001;</p> <ul style="list-style-type: none"> ☛ Substantially completed the construction of a new Canine Training Center, which provides state-of-the-art facilities for training ATF handlers and canines. The 24,000 square-foot facility located in Front Royal, VA will house a staff of 21 personnel; ☛ Created the Special Agent Recruitment Center (SARC) in October 1998, to place a special emphasis on new agent hiring. A new applicant tracking system was implemented in FY 1999, and was made available for use by the Field Operations and Inspection offices. SARC (in partnership with Field Operations, Office of Inspection, Chief Counsel, and Office of Personnel Management) reported that 3,673 candidates applied for agent positions; 1,288 were interviewed; 381 selections were made; 200 new agents were on board by the end of FY 1999; and 57 applicants were cleared for employment in FY 2000. <p>Additionally, there were 4,010 candidates that applied for ATF Inspector positions in FY 1998. Of this pool, 550 candidates are currently in the interview stage, 163 selections have been made, 97 new inspectors were on board by the end of FY 1999, 36 offers were declined, and 21 selections are pending the background investigations and medical clearances;</p> <ul style="list-style-type: none"> ☛ Developed assessment and installation procedures for security systems using a nationwide vendor. Security systems upgrades are complete at the 90 facilities identified for upgrades. Also, Deployable ID Media and Intrusion Detection systems were designed and developed. Successful FY 1999 deployments of portable security systems were made as follows: (a) Vail, Colorado, Arson Task Force; (b) Little Rock, Arkansas, Critical Incident Management Response Team; (c) Denver Critical Management Response Team; (d) Nashville, Tennessee, Crime Conference, and (e) Chicago and Detroit Field Division, Critical Incident Management Response Training; ☛ Awarded five requirements with 8(a) firms, pursuant to Section 8(a) of the Small Business Act, the Department of the Treasury and the Small Business Administration's Memorandum of Understanding for Streamlined 8(a) Contracting. This process has worked favorably in
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cases where the program office needs supplies or services expeditiously. Additionally, the Bureau has also identified a requirement under Treasury's Mentor-Protege Program for EEO counseling services. ATF was the first of twelve Treasury bureaus to enter into a contract under the program, and was recognized by the Treasury's Deputy Assistant Secretary;

- ☛ Trained and certified property custodial officers at ATF Headquarters (by the National Property Management Association, a group

affiliated with property management professionals). This initiative has provided better training for employees in the property management arena. (There are plans to expand this process to field personnel in FY 2000);

- ☛ Made significant improvements in the seat management inventory of Information Technology (IT) equipment in FY 1999. A 100% inventory of IT equipment was completed and procedures refined.

Financial Results, Position and Condition

Overview of Financial Data

ATF's financial management vision is "to enable ATF to work better and cost less, by financial and program personnel working in partnership, using modern management techniques and integrated financial systems. Together, we will ensure the integrity of information, make informed decisions, and measure performance to achieve desirable outcomes and real cost effectiveness."

A number of enhancements were made during FY 1999 to comply fully with the Chief Financial Officers Act of 1990, the Government Management Reform Act of 1994, the Government Performance and Results Act of 1993, the Debt Collection Improvement Act of 1996, the Federal Managers' Financial Integrity Act of 1982, the Federal Financial Management Improvement Act of 1996, and a number of GSA-mandated travel regulation changes. ATF completed its financial system conversion from a mainframe to client-server environment. The Bureau converted all ATF cardholders to a new Treasury-wide credit card program, standardized its expenditure categories to meet Treasury-wide requirements, and enhanced its cost accounting to incorporate payroll expenditures down to Bureau programs and project levels.

In recent years, ATF has made significant progress in implementing Federal financial management reforms and incorporating advances in information management technology into its processes. As a result of these actions, ATF is again pleased with an unqualified audit opinion from PricewaterhouseCoopers LLP for FY 1999.

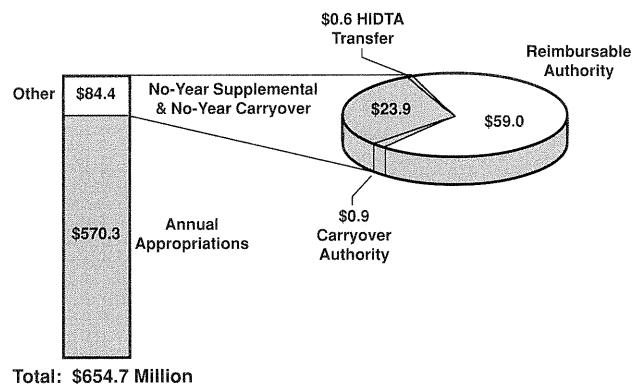
Budget Integrity

Sources of Funds

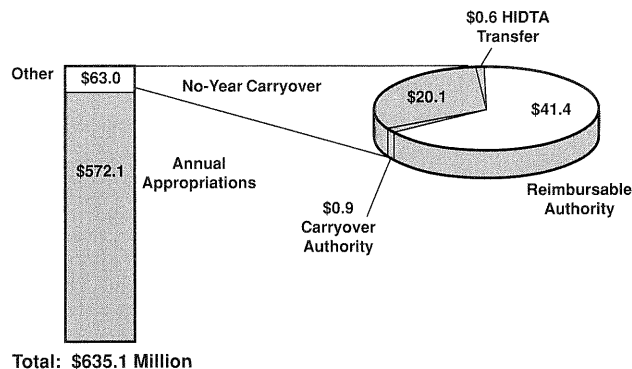
The total budget authority available for use by ATF in FY 1999 was \$635.1 million. Of that amount, the Congress appropriated \$541.6 million for the Bureau's Salaries and Expenses Fund and \$16.0 million for the Violent Crime Reduction Trust Fund. The Bureau received supplemental funding of \$14.5 million for the Y2K compliance efforts. An additional \$63.0 million was made available from other sources. These other sources included the following: no-year carryover funds of \$20.1 million; appropriation transfers of \$.6 million from the Office of National Drug Control Policy to

support ATF efforts in High Intensity Drug Trafficking Areas (HIDTA); \$41.4 million in reimbursable authority from other Government agencies; and \$.9 million, which represent 50 percent of the FY 1998 unobligated balance. Additionally, \$4.5 million was redirected from the Salaries and Expenses fund into the Violent Crime Reduction Trust Fund to support expansion of the National Tracing Center.

Sources of Funds FY 1998 (Dollars in Millions)



Sources of Funds FY 1999 (Dollars in Millions)

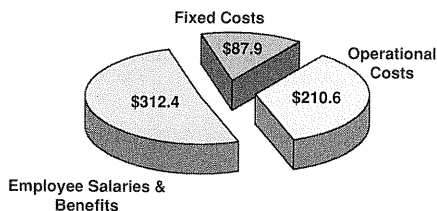


Uses of Funds

ATF incurred obligations of \$612.3 million during FY 1999. Of the \$21.9 million in budget authority that was not obligated in FY 1999, \$5.4 million represents the Bureau's Salaries and Expenses; \$.09 million represents HIDTA funding and funding available from prior-year carryover of unobligated balances; and \$16.4 million represents no-year appropriation carryover funds available for use in FY 2000. Additionally, \$.03 million was transferred to the Department in support of the Honors Attorney Program and \$0.8 million represents the rescission of No-year funding.

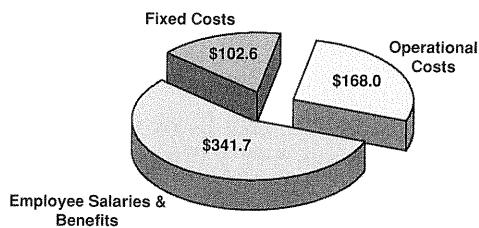
In FY 1999, the Bureau's full-time equivalent (FTE) level increased by 348 FTE. This increase was the basis for a corresponding increase in salaries and benefits, and fixed costs; thus, a decrease in operational costs.

**Uses of Funds
FY 1998**
(Dollars in Millions)



Total: \$610.9 Million

**Uses of Funds
FY 1999**
(Dollars in Millions)

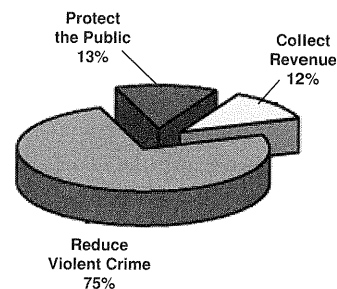


Total: \$612.3 Million

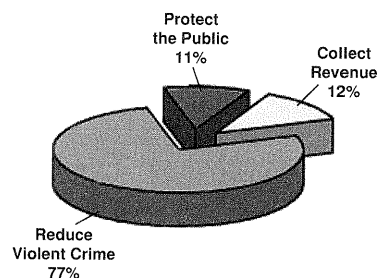
Cost Accounting and Performance Measurement

ATF continued its multi-year effort to develop and implement a Bureau-wide planning and reporting framework in the cost accounting and performance measurement area. In FY 1998, ATF implemented a new cost structure and laid the groundwork to standardize the cost structure for all Bureau systems that capture resource data. This new framework was also utilized in developing ATF's FY 2000 and 2001 budget submissions. The new framework links strategic planning, budgeting, and program planning into a single, integrated package, permitting the Bureau to improve formulation and execution of its programs. During FY 1999, the Bureau furthered its implementation of Cost Accounting requirements by having employees directly charge their time against the Bureau's activities at the project level in a new standardized time reporting format. Ongoing efforts include refining definitions of performance measures, finalizing a long-term costing methodology, and implementing an operational cost accounting pilot. Within the financial management operation, key performance indicators were developed with the intention of establishing its first published annual performance plan for FY 1999.

**Cost by Activity
FY 1998**



**Cost by Activity
FY 1999**



Financial Performance

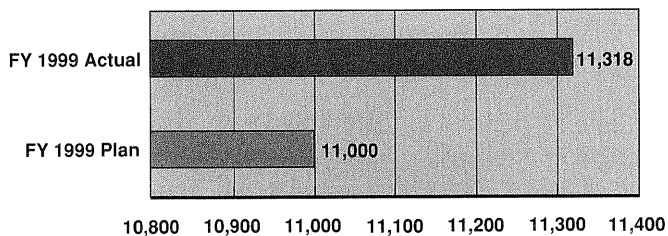
ATF has published its first annual financial management performance plan which contains key financial performance indicators and continues to refine the indicators. There are three major activities identified in ATF's Financial Management Performance Plan. These activities are: 1) Provide leadership to promote the acquisition and management of ATF's resources, revenue, and assets; 2) provide quality financial services; and, 3) provide financial information on ATF operations which supports reporting and decision making. Strategic goals, annual performance goals, and measures were developed to achieve these three financial management activities. Several of the key goals and measures in the FY 1999 Financial Management Performance Plan are displayed below.

- ❖ **Activity: To provide quality financial services.**

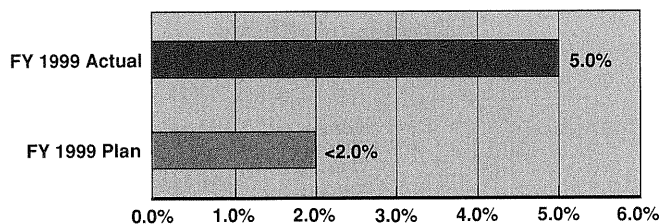
Strategic Goal: Focus on customer service and innovate financial processes.

Annual Performance Goal: Compliance with Prompt Pay Act (PPA).

Performance Measure: Number of commercial bills paid.



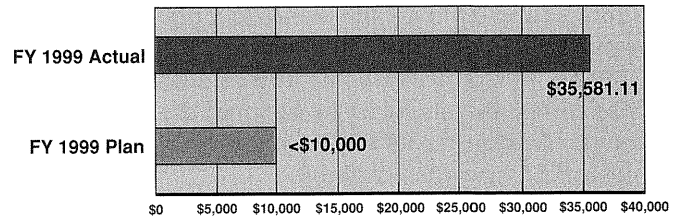
Performance Measure: Percentage paid late.



In FY 1999, the Bureau's annual delinquent rate increased to 5.0 percent, up from 3.9 percent in FY 1998 due to a complete restructuring of its accounting classification coding to support the

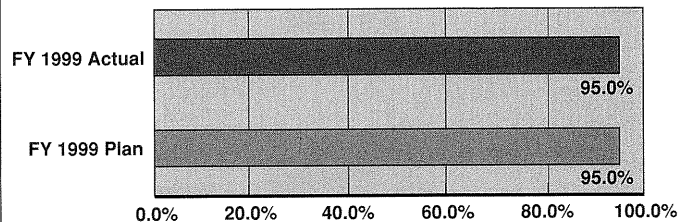
Bureau's Field Operations restructuring. The Treasury benchmark is 2 percent which ATF will strive to meet in FY 2000.

Performance Measure: Dollar amount of interest paid.



Annual Performance Goal: Compliance with electronic funds transfer (EFT) legislation.

Performance Measure: Percentage of vendors paid via EFT.



Note: Total number of vendor payments in FY 1999 was 6,191.

- ❖ **Activity: To provide financial information on ATF operations which supports reporting and decision making.**

Strategic Goal: Provide complete and accurate financial statements.

Annual Performance Goal: Implement new schedules required under OMB Bulletin 97-01.

Performance Measure: Earn an unqualified audit opinion on ATF's Financial Statements.

1999 Plan: Unqualified Opinion

1999 Actual Results: Unqualified Opinion

Cash Management

ATF is complying with existing cash management laws and regulations and is aggressively working to enhance its cash management policies and opera-

tions through the implementation of new or improved technologies. Its activities in the cash management area are detailed below:

- Prompt Payment Act (PPA) Compliance. The PPA requires the Federal Government to make vendor payments timely, with interest penalties for late payments and discounts for approved accelerated payments. In FY 1999, the Bureau's annual delinquent rate increased to 5.0 percent, up from 3.9 percent in FY 1998 due to a complete restructuring of its accounting classification coding to support the Bureau's Field Operations restructuring. The Treasury benchmark is 2 percent which ATF will strive to meet in FY 2000.
- Debt Collection Improvement Act Compliance. This act requires the use of electronic funds transfer for all Federal payments made after January 1, 1999.

Vendor payments: In FY 1999, ATF had paid 95 percent of its vendors electronically which represents a 15 percent increase over 80 percent in FY 1998.

Employee payments: ATF processes travel payments 100 percent electronically within one week of receiving a completed travel voucher. The implementation of a significant reduction in process time means that travelers actually receive reimbursement in their bank accounts within four to eleven days of submitting vouchers. Nearly 100 percent of ATF's employees receive salary payments via electronic funds transfer.

- Collection Mechanisms. ATF uses the automated FEDWIRE Deposit System to collect alcohol and tobacco excise taxes from taxpayers who pay more than \$5 million in taxes per calendar year. In addition, ATF uses lockboxes provided through the Treasury lockbox network, to collect other excise taxes, firearms license and permit fees, and Special Occupational Taxes.

ATF has entered into a Memorandum of Agreement with the Financial Management Service (FMS) and a commercial bank to accept credit cards for the payment of licensing fees and other taxes. Once implemented, ATF plans to expand to include credit card charges over the Internet.

- Credit Cards. In FY 1999, ATF implemented the new governmentwide credit card program, with Citibank as its vendor and MasterCard as its brand. ATF has over 2,800 purchase cardholders who use the card primarily for small purchases (under \$2,500); however, ATF's procurement staff can and does use the card for higher dollar amount purchases. Over 3,300 ATF employees travel on official business and have received travel cards in accordance with the Travel and Transportation Act of 1998.
- Imprest Funds. ATF closed all miscellaneous imprest funds nation-wide at the end of FY 1999 and is encouraging employees to use the purchase card whenever possible. To cover those situations where a merchant will not accept the purchase card, selected cardholders in each field division will have the authority to use convenience checks which are issued against the individual's purchase card.

Limitations of the Financial Statements

The financial statements were prepared to report the financial position and results of operations pursuant to the requirements of 31 U.S.C. 3515(b). The statements have been prepared from the books and records of ATF according to formats prescribed by the Office of Management and Budget. The statements are in addition to the financial reports used to monitor and control budgetary resources prepared from the same books and records. The statements should be read with the realization that they are for a component of the U.S. Government, a sovereign entity. One implication of this is that liabilities cannot be liquidated without legislation that provides resources to do so.

Management Responsibilities

Bureau management is responsible for the fair presentation of information contained in the principal financial statements, in conformity with generally accepted accounting principles (GAAP) and the form and content for entity financial statements specified by the Office of Management and Budget (OMB) in OMB Bulletin 97-01. Management is also responsible for the fair presentation of ATF's performance measures in accordance with OMB requirements. The quality of the Bureau's internal control structure rests with management, as does the responsibility for identification and compliance with pertinent laws and regulations.

Systems and Controls

Financial Systems

The Bureau's systems modernization efforts are designed to improve the effectiveness and efficiency of financial data processing and reporting capabilities. Planned improvements to the Bureau's financial systems address integrating all financial-related systems and establish direct links between program costs and performance measures. The discussion of the Bureau's financial system conversion can be found under the section, Major Infrastructure Challenges Facing ATF.

The following were financial management system accomplishments in FY 1999:

- Created Office of Management steering committee to oversee integration of systems;
- Designed, implemented, and conducted training for over 250 users;
- Designed and executed the conversion of five years of historical data;
- Re-engineered business processes to reduce paper;
- Selected an off-the-shelf software application that integrated with existing office automation tools;
- Designed a system architecture that took advantage of the Bureau's current technology infrastructure;
- Modified the Standard Time and Attendance System (STATS) and the payroll interface to implement payroll costs by program and project in last quarter;
- Developed a five-year financial management system strategic plan with the objectives to:
 - Create a paperless financial process environment through re-engineering and standardizing;
 - Integrate all financial and mixed financial systems;
 - Take advantage of all E-Commerce technology.

FY 2000 Plans:

- Configure new cost management subsystem;
- Complete baseline implementation, including:
 - Payroll Interface;
 - Additional Reports;
- Begin integration of core financial system with ATF's stand-alone property system;
- Purchase, configure, and interface new budget formulation sub-system;
- Pilot stand alone Travel Manager in Bureau program offices;
- Automate Permanent Change of Station (PCS) function in Headquarters using Travel Manager;
- Build Travel Manager interface to core financial system;
- Select one of the two Grant Management Systems in compliance with the Government-wide CFO Council.

Integrated Tax Collection System

The Integrated Tax Collection System (ICS) is a long-range project to integrate Bureau revenue management, including operational and financial processes. Areas specifically targeted for improvement are ATF business processes; revenue collection; management and accounting practices; and system flexibility to respond to changing functional and information requirements.

This project integrates numerous stand-alone tax and fee databases to provide comprehensive revenue management information for Bureau program managers. Completion of the ICS will reduce the risk of revenue loss, eliminate duplication found in multiple databases, and increase ATF's tax return and claim verification efficiency.

FY 1999 accomplishments:

- ☛ Deployed Y2K compliant client-server based applications to replace mainframe systems for Federal Excise Tax and Floor Stocks Tax; and
- ☛ Updated the document imaging system for tax returns and other reports filed with the National Revenue Center in Cincinnati to a Y2K compliant version.

FY 2000 plans:

As the financial system conversion and ICS developments proceed, ATF will continue to reexamine and redesign business processes to ensure maximum return on the taxpayers' investment. The Bureau will strive to align all financial systems planning with the needs of the regulated industries and other key stakeholders.

Federal Managers' Financial Integrity Act (FMFIA) Summary

Annual Assurance Statement for FY 1999

ATF management controls are established in accordance with standards required by Section 2 of the Federal Managers' Financial Integrity Act (FMFIA) and provide reasonable assurance that (1) our programs are achieving their intended results; (2) resources are used in a manner that is consistent with our mission; (3) assets are protected from fraud, abuse, waste, and mismanagement; and (4) laws and regulations are followed. There is reasonable assurance that the financial system for the Bureau is in conformance with Government-wide financial information standards as well as financial system functional standards for FY 1999 in accordance with Section 4 of the FMFIA. The Bureau is in substantial compliance with the requirements of the Federal Financial Management Improvement Act (FFMIA) of 1996. Specifically, ATF has implemented and maintained financial systems that comply substantially with Federal financial management systems requirements, applicable Federal accounting standards, and the United States Government Standard General Ledger at the transaction level.

FMFIA Highlights

The Bureau centrally manages the Federal Managers' Financial Integrity Act (FMFIA) program, with oversight responsibilities assigned to the CFO. However, each executive office maintains responsibility for a cost-effective system of controls to provide reasonable assurance that Government resources are protected against fraud, waste, abuse, mismanagement, or misappropriation. The Executive Staff's responsibilities include ensuring that new and existing programs and administrative support activities are managed efficiently and effectively. All Executive Staff members and managers are accountable for safeguarding resources and are also evaluated as financial managers. In addition, the CFO Steering Committee, chaired by the Deputy CFO, is comprised of the deputies of each major Bureau component. This committee provides a forum for monitoring progress, resolving problems, providing coordination, and developing consensus recommendations regarding issues that arise from the Bureau's audit and its management and internal control environment.



Members of ATF's CFO Steering Committee from left to right include the Assistant Financial Manager (Accounting); Deputy Assistant Director (Inspection); Deputy Assistant Director (Firearms, Explosives and Arson); Chief, Strategic Planning Office; Financial Manager/Deputy CFO; Deputy Assistant Director (Science and Technology); and the Deputy Assistant Director (Liaison and Public Information). Missing from the picture are the Deputy Chief Counsel; Executive Assistant, Field Operations; Deputy Assistant Director (Alcohol and Tobacco); Deputy Assistant Director (Management); and the Deputy Assistant Director (Training and Professional Development).

1999 FMFIA STATUS

ATF's FY 1999 annual statement of assurance indicated that the Bureau could reasonably assure that:

- (1) obligations and costs are in compliance with applicable laws and assets are safeguarded;

- (2) operational revenues and expenditures are properly recorded and accounted for; and
- (3) accounting systems conform to the Comptroller General's accounting principles and standards.

The reasonable assurance was based on the Bureau's continued effort to improve its systems of management controls and aggressive steps to improve automated systems. No FMFIA deficiencies were identified during FY 1999.

Policies and Procedures

In FY 1999, the Bureau actively pursued corrective actions to address conditions in the FY 1996 audit and reported again in FY 1997 and FY 1998 by PricewaterhouseCoopers LLP:

ATF Should Improve Controls Over Segregation of Duties

(Formerly identified as Enhance Controls Over the Information Security Management Function)

Status and Accomplishments: In process. ATF designated a contractor as a backup to perform systems programming duties. A security administrator was assigned to perform basic access/administration duties to segregate and offload those functions from systems programming. In addition, basic system software management procedures for all major changes are being implemented to provide controls through the end of the mainframe's anticipated life cycle on December 1999. ATF is currently in the process of migrating its mainframe application systems to a client-server environment. Procedures include weekly status reports on system programming activities that are submitted monthly to the COTR for re-

view. Respective application system owners are responsible for all phases of normal transaction processing.

ATF Can Further Strengthen Controls to Protect Its Information

(Formerly identified as Continue to Improve Effectiveness of Access Control Software and Evaluate Telecommunications Security Risks)

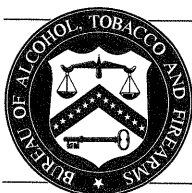
Status and Accomplishments: In process. Due to the sensitive nature of this specific finding, ATF is unable to address publicly the corrective action taken.

ATF Needs to Accelerate Efforts to Implement Its Program Change Control Process

Status and Accomplishments: In process. ATF drafted policy for Enterprise Configuration Management and the charter for the Enterprise Change Management Council (ECMC), which have been approved for implementation by the Bureau's CIO. The implementation plan was developed. Training for ATF personnel to use the new procedures is underway.

Monthly Accountability Plan

The Monthly Accountability Plan (MAP) continued in FY 1999 as a reporting mechanism used to monitor critical, key activities that must be accomplished in order to achieve an efficient and effective integrated financial management process. Included in the MAP are data on key operating duties and indicators, such as account reconciliations, system assurance, financial reporting, and workload statistics.



Auditor's Report on Financial Statements

PRICEWATERHOUSECOOPERS 

PricewaterhouseCoopers LLP
1616 North Fort Myer Drive
Arlington VA 22209-3195
Telephone (703) 741 1000
Facsimile (703) 741 1616

REPORT OF INDEPENDENT ACCOUNTANTS

To the U.S. Department of the Treasury Office of Inspector General and
The Director of the Bureau of Alcohol, Tobacco and Firearms

We have audited the accompanying balance sheet of the Bureau of Alcohol, Tobacco and Firearms (ATF) as of September 30, 1999, and the related statements of net cost, changes in net position, budgetary resources, financing, and custodial activity for the year then ended. These financial statements are the responsibility of ATF's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards; *Government Auditing Standards*, issued by the Comptroller General of the United States; and Office of Management and Budget (OMB) Bulletin No. 98-08, *Audit Requirements of Federal Financial Statements*, as amended. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of ATF at September 30, 1999, and its net cost of operations, changes in net position, budgetary resources, financing, and custodial activity for the year then ended in conformity with generally accepted accounting principles.

Our audit was conducted for the purpose of forming an opinion on the financial statements referred to above, taken as a whole. The "Overview of the Reporting Entity" section is presented for the purposes of additional analysis and is not a required part of the financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the financial statements, and, accordingly, we express no opinion on it.

In accordance with *Government Auditing Standards*, we have also issued a report dated January 21, 2000 on our consideration of ATF's internal control and a report dated January 21, 2000 on its compliance with laws and regulations.

PricewaterhouseCoopers LLP

January 21, 2000
Arlington, Virginia



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REPORT OF INDEPENDENT ACCOUNTANTS ON INTERNAL CONTROL

To the U.S. Department of the Treasury Office of Inspector General and
The Director of the Bureau of Alcohol, Tobacco and Firearms

We have audited the Principal Statements (hereinafter referred to as "financial statements") of the Bureau of Alcohol, Tobacco and Firearms (ATF) as of and for the year ended September 30, 1999, and have issued our report thereon dated January 21, 2000.

We conducted our audit in accordance with generally accepted auditing standards; *Government Auditing Standards*, issued by the Comptroller General of the United States; and Office of Management and Budget (OMB) Bulletin No. 98-08, *Audit Requirements for Federal Financial Statements*, as amended.

The management of ATF is responsible for establishing and maintaining accounting systems and internal control. In fulfilling this responsibility, estimates and judgments are required to assess the expected benefits and related costs of internal control policies and procedures. The objectives of internal control are to provide management with reasonable, but not absolute, assurance that: (1) transactions are properly recorded and accounted for to permit the preparation of reliable financial statements and to maintain accountability over assets; (2) funds, property, and other assets are safeguarded from loss from unauthorized acquisition, use or disposition; (3) transactions, including those related to obligations and costs, are executed in compliance with laws and regulations that could have a direct and material effect on the financial statements and other relevant laws and regulations; and (4) transactions and other data that support reported performance measures are properly recorded and accounted for to permit preparation of reliable and complete performance information. Because of inherent limitations in any internal control, errors or fraud may nevertheless occur and not be detected. Also, projection of any evaluation of internal control to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the effectiveness of the design and operation of policies and procedures may deteriorate.

In planning and performing our audit of the financial statements of ATF for the year ended September 30, 1999, we obtained an understanding of the design of significant internal control policies and procedures and whether they have been placed in operation, tested certain controls, and assessed control risk in order to determine our auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide an opinion on internal control. Accordingly, we do not express such an opinion.



Report on Internal Control

Page 2

With respect to internal control relevant to data that support reported performance measures, we obtained an understanding of the design of significant internal controls relating to the existence and completeness assertions, as required by OMB Bulletin 98-08, as amended. Our procedures were not designed to provide an opinion on internal control over reported performance measures, and, accordingly, we do not express such an opinion.

We noted certain matters in internal control and its operation that we consider to be reportable conditions under standards established by the American Institute of Certified Public Accountants and OMB Bulletin No. 98-08, as amended. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of internal control that, in our judgment, could adversely affect the entity's ability to meet the internal control objectives described above.

During 1999, ATF made improvements in each of the three areas noted in last year's internal control report. However, all three areas continue to have weaknesses requiring further corrective actions, as noted in the following sections.

ATF Can Further Strengthen Controls to Protect Its Information

Last year's audit identified that ATF had a number of access control weaknesses within its financial information systems. Over the past year ATF made progress addressing these issues. For example, certain weaknesses associated with dial-in security and mainframe security settings have been remedied. However, other weaknesses continue to exist in both ATF's mainframe and client server environments. Because of the sensitive nature of these findings, details and recommendations for correcting these weaknesses will be presented in a separate, limited-distribution management letter to ATF.

ATF Can Further Strengthen Its System Change Control Process

As reported under the heading in last year's report, *ATF Needs to Accelerate Efforts to Implement Its Program Change Control Process*, ATF had developed a set of policies and procedures for controlling computer program code changes and placing the changes into production. At that time, however, the procedures were in draft form and had not been formally approved or disseminated. During fiscal year 1999, ATF formalized and disseminated procedures and conducted training concerning these issues for the new client server environment implemented for fiscal year 2000. We noted that these procedures did not adequately address two major issues in the current mainframe environment: (1) documenting the tracking of changes and (2) establishing responsibility for moving changes into production. As a result of these weaknesses, unauthorized changes could have been made in the environment under audit. We recommend that ATF monitor all subsequent mainframe changes until the new environment and all associated applications are fully implemented. ATF then should enforce the following existing procedures for the new environment:

- Use version control software to track changes to production computer program code.
- Have the change management team move changes into production.



Report on Internal Control
Page 3

ATF Should Improve Controls Over Segregation of Duties

As reported last year, a systems programmer working for an ATF contractor had primary responsibility for incompatible duties such as maintaining the security software, processing and approving system changes, and performing programmer duties. Furthermore, the systems programmer's work was not adequately monitored or reviewed by ATF personnel.

This condition continued during fiscal year 1999 because existing ATF personnel resources were dedicated to addressing Year 2000 issues and the financial system conversion. Also, ATF management determined that it was not cost effective to train or hire personnel to monitor a system that was planned for replacement. However, we noted that the migration of critical applications from the mainframe environment is lasting longer than anticipated. The continuation of this environment and the lack of duty segregation increases the potential for unauthorized changes and other improper system related activities. Therefore, we recommend that ATF monitor the changes made by the systems programmer and document the monitoring activities until the mainframe is completely replaced.

In addition, as we noted last year, administration and user duties were not properly segregated for applications such as Federal Excise Tax (revenue subsidiary system), Financial Management Information System (general ledger system), and Property Plus (property subsidiary system). Security and systems administrators were approving transactions, processing transactions, and reviewing their own corrections. Since last year, improvements have been made concerning each of these applications. For example, the number of Property Plus users with administrator privileges was reduced, and monitoring was instituted for Federal Excise Tax system administrators performing transactions. However, the same segregation problem exists with the Procurement Desktop application, a major financial application reviewed by us for the first time this year. This condition occurred because policies and procedures were not established for Procurement Desktop to adequately segregate incompatible duties. Proper segregation of duties helps to prevent the unauthorized processing of transactions and/or corrections. We recommend that ATF establish Procurement Desktop-specific policies and procedures to segregate users' transaction processing responsibilities, including the approving, processing, reviewing, and correcting of transactions, from system security/administration tasks. We further recommend that ATF review all of its new and existing applications not already covered by our review for segregation of incompatible duties and take appropriate action to resolve any issues identified.

* * *

A material weakness in internal control is a reportable condition in which the design or operation of one or more of the internal control elements does not reduce to a relatively low level the risk that errors or fraud in amounts that would be material in relation to the financial statements being audited or material to a performance measure or aggregation of related performance measures may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.



Report on Internal Control
Page 4

Our consideration of internal control would not necessarily disclose all matters in internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses as defined above. However, we believe none of the fiscal year 1999 reportable conditions described above is a material weakness.

We also noted certain other matters involving internal control that we will report to the management of ATF in a separate management letter.

This report is intended solely for the information and use of the U.S. Department of the Treasury Office of Inspector General, the Department of the Treasury, the management of ATF, the OMB and the Congress. It is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in cursive script that reads "PricewaterhouseCoopers LLP".

January 21, 2000
Arlington, Virginia



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**REPORT OF INDEPENDENT ACCOUNTANTS
ON COMPLIANCE WITH LAWS AND REGULATIONS**

To the U.S. Department of the Treasury Office of Inspector General and
The Director of the Bureau of Alcohol, Tobacco and Firearms

We have audited the Principal Statements (hereinafter referred to as "financial statements") of the Bureau of Alcohol, Tobacco and Firearms (ATF) as of and for the year ended September 30, 1999, and have issued our report thereon dated January 21, 2000.

We conducted our audit in accordance with generally accepted auditing standards; *Government Auditing Standards*, issued by the Comptroller General of the United States; and Office of Management and Budget (OMB) Bulletin No. 98-08, *Audit Requirements for Federal Financial Statements*, as amended. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

The management of ATF is responsible for complying with laws and regulations applicable to ATF. As part of obtaining reasonable assurance about whether ATF's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws and regulations, noncompliance with which could have a direct and material effect on the determination of financial statement amounts and certain other laws and regulations specified in OMB Bulletin No. 98-08, as amended, including the requirements referred to in the Federal Financial Management Improvement Act (FFMIA) of 1996.

The results of our tests of compliance with laws and regulations described in the preceding paragraph exclusive of FFMIA disclosed no instances of noncompliance that are required to be reported herein under *Government Auditing Standards* and OMB Bulletin 98-08, as amended.

Under FFMIA, we are required to report whether the agency's financial management systems substantially comply with the Federal financial management systems requirements, applicable accounting standards, and the United States Standard General Ledger at the transaction level. To meet this requirement, we performed tests of compliance using the implementation guidance for FFMIA included in Appendix D of OMB Bulletin No. 98-08, as amended.

The results of our tests disclosed no instances where ATF's financial management systems did not substantially comply with the three requirements discussed in the preceding paragraph.



Report on Compliance with Laws and Regulations
Page 2

Providing an opinion on compliance with certain provisions of laws and regulations was not an objective of our audit and, accordingly, we do not express such an opinion.

This report is intended solely for the information and use of the U.S. Department of the Treasury Office of Inspector General, the Department of the Treasury, the management of ATF, the OMB and the Congress. It is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in cursive script that reads "PricewaterhouseCoopers LLP".

January 21, 2000
Arlington, Virginia



Financial Statements

DEPARTMENT OF THE TREASURY BUREAU OF ALCOHOL, TOBACCO AND FIREARMS BALANCE SHEET As of September 30, 1999

		1999
		(In Thousands)
ASSETS		
Entity Assets		
Intragovernmental Assets:		
Fund Balance with Treasury	(Note 2)	\$ 191,532
Accounts Receivable	(Note 3)	27,849
Prepayments		<u>6,251</u>
Total Intragovernmental Assets		<u>225,632</u>
Cash	(Note 2)	2,291
Property and Equipment, Net	(Note 4)	90,776
Other Assets	(Note 5)	<u>389</u>
Total Entity Assets		<u>319,088</u>
Non-Entity Assets		
Intragovernmental Assets:		
Fund Balance with Treasury	(Note 2)	2,520
Accounts Receivable	(Note 3)	<u>13,044</u>
Total Intragovernmental Assets		<u>15,564</u>
Accounts Receivable, Net	(Note 3)	<u>1,413</u>
Total Non-Entity Assets		<u>16,977</u>
TOTAL ASSETS		<u><u>\$ 336,065</u></u>

The accompanying notes are an integral part of these statements.

DEPARTMENT OF THE TREASURY
BUREAU OF ALCOHOL, TOBACCO AND FIREARMS
BALANCE SHEET
As of September 30, 1999

	1999
	(In Thousands)
LIABILITIES	
Liabilities Covered by Budgetary Resources	
Intragovernmental Liabilities:	
Accounts Payable	\$ 2,410
Payable to Treasury	1,354
Total Intragovernmental Liabilities	<u>3,764</u>
Accounts Payable	31,667
Accrued Funded Payroll Benefits	18,871
Other Liabilities (Note 6)	4,388
Total Liabilities Covered by Budgetary Resources	<u>58,690</u>
Liabilities Not Covered by Budgetary Resources	
Intragovernmental Liabilities:	
Accrued FECA Liability Payable	18,265
Total Intragovernmental Liabilities	<u>18,265</u>
Accrued Leave	27,765
FECA Actuarial Liability	82,139
Lease Liability (Note 7)	10,135
Contingent Liabilities (Note 8)	10,800
Total Liabilities Not Covered by Budgetary Resources	<u>149,104</u>
TOTAL LIABILITIES	\$ 207,794
NET POSITION (Note 9)	
Unexpended Appropriations	\$ 180,296
Cumulative Results of Operations	(52,025)
TOTAL NET POSITION	128,271
TOTAL LIABILITIES AND NET POSITION	<u><u>\$ 336,065</u></u>

The accompanying notes are an integral part of these statements.

DEPARTMENT OF THE TREASURY
BUREAU OF ALCOHOL, TOBACCO AND FIREARMS
STATEMENT OF NET COST
For the Year Ended September 30, 1999

	<i>REDUCE VIOLENT CRIME</i>	<i>PROTECT THE PUBLIC</i>	<i>COLLECT THE REVENUE</i>	<i>TOTAL</i>
(In Thousands)				
Program Costs				
Intragovernmental	\$ 33,931	\$ 4,823	\$ 5,370	\$ 44,124
Public	368,071	52,315	58,250	478,636
Total Program Costs	402,002	57,138	63,620	522,760
 Less: Earned Revenues (Note 10)	 (17,321)	 -	 (861)	 (18,182)
 Net Program Costs	 \$ 384,681	 \$ 57,138	 \$ 62,759	 \$ 504,578
 Costs Not Assigned to Programs				 86,824
 NET COST OF OPERATIONS				 \$ 591,402

The accompanying notes are an integral part of these statements.

DEPARTMENT OF THE TREASURY
BUREAU OF ALCOHOL, TOBACCO AND FIREARMS
STATEMENT OF CHANGES IN NET POSITION
For the Year Ended September 30, 1999

		(In Thousands)
NET COST OF OPERATIONS		\$ 591,402
Financing Sources		
Appropriations Used		546,955
Imputed Financing	(Note 11)	24,300
Other Financing Sources		19,381
Total Financing Sources		<u>590,636</u>
Net Results of Operations		(766)
Net Change in Cumulative Results of Operations		<u>(766)</u>
Increase (Decrease) in Unexpended Appropriations		<u>17,116</u>
Change in Net Position		16,350
Net Position - Beginning of Period		<u>111,921</u>
NET POSITION - END OF PERIOD		<u><u>\$ 128,271</u></u>

The accompanying notes are an integral part of these statements.

DEPARTMENT OF THE TREASURY
BUREAU OF ALCOHOL, TOBACCO AND FIREARMS
STATEMENT OF BUDGETARY RESOURCES
For the Year Ended September 30, 1999

		(In Thousands)
BUDGETARY RESOURCES	(Note 12)	
Budget Authority		\$ 572,753
Unobligated Balance - Beginning of Period		27,572
Net Transfers, Prior Year Balance		(925)
Spending Authority from Offsetting Collections		41,196
Adjustments		47,055
TOTAL BUDGETARY RESOURCES		<u><u>\$ 687,651</u></u>
 STATUS OF BUDGETARY RESOURCES		
Obligations Incurred		\$ 650,469
Unobligated Balances - Available		20,986
Unobligated Balances - Not Available		16,196
TOTAL, STATUS OF BUDGETARY RESOURCES		<u><u>\$ 687,651</u></u>
 OUTLAYS		
Obligations Incurred		\$ 650,469
Less: Spending Authority From Offsetting Collections and Adjustments		(92,203)
Obligated Balance, Net - Beginning of the Period		168,421
Less: Obligated Balance, Net - End of the Period		<u>(154,773)</u>
TOTAL OUTLAYS		<u><u>\$ 571,914</u></u>

The accompanying notes are an integral part of these statements.

DEPARTMENT OF THE TREASURY
BUREAU OF ALCOHOL, TOBACCO AND FIREARMS
STATEMENT OF FINANCING
For the Year Ended September 30, 1999

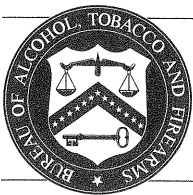
		(In Thousands)
OBLIGATIONS AND NONBUDGETARY RESOURCES		
Obligations Incurred	\$ 650,469	
Less: Spending Authority From Offsetting		
Collections and Adjustments	(92,203)	
Financing Imputed for Cost Subsidies (Note 11)	24,300	
Other Financing Sources (Note 13)	12,017	
Revenue Not in the Budget	760	
Total Obligations as Adjusted and Nonbudgetary Resources		\$ 595,343
RESOURCES THAT DO NOT FUND NET COST OF OPERATIONS		
Change in Amount of Goods, Services and Benefits		
Ordered but Not Yet Provided	(5,837)	
Costs Capitalized on the Balance Sheet	(43,802)	
Total Resources That Do Not Fund Net Cost of Operations		(49,639)
COSTS THAT DO NOT REQUIRE RESOURCES		
Depreciation and Amortization	28,216	
Loss on Disposition of Assets	302	
Liquidation of Prepayments	9,440	
Other	757	
Total Costs That Do Not Require Resources		38,715
FINANCING SOURCES YET TO BE PROVIDED		6,983
NET COST OF OPERATIONS		\$ 591,402

The accompanying notes are an integral part of these statements.

DEPARTMENT OF THE TREASURY
BUREAU OF ALCOHOL, TOBACCO AND FIREARMS
STATEMENT OF CUSTODIAL ACTIVITY
For the Year Ended September 30, 1999

		(In Thousands)
REVENUE ACTIVITY		
Sources of Cash Collections	(Note 14)	
Interest	\$	61
Penalties and Fines		79
Tax Revenues		12,136,139
Other Custodial Revenue		306
Total Cash Collections		<u>12,136,585</u>
Accrual Adjustment		(656)
Total Custodial Revenue		<u>12,135,929</u>
DISPOSITION OF COLLECTIONS		
Transferred to Others		11,870,308
(Increase) Decrease in Amounts to be Transferred		1,112
Refunds and Other Payments	(Note 14)	264,509
Total Disposition of Collections		<u>12,135,929</u>
NET CUSTODIAL REVENUE ACTIVITY	\$	<u><u>-</u></u>

The accompanying notes are an integral part of these statements.



Notes to the Financial Statements

NOTE 1

Summary of Significant Accounting Policies

REPORTING ENTITY

The Bureau of Alcohol, Tobacco and Firearms (ATF or the Bureau), an enforcement agency within the Department of the Treasury, was given full Bureau status in 1972. ATF's mission is to enforce the Federal laws and regulations relating to alcohol, tobacco, firearms, explosives and arson. In addition, ATF is responsible for the collection of excise taxes and fees from the alcohol, tobacco, firearms and ammunition industries, as well as Special Occupational Taxes from certain businesses in the alcohol, tobacco and firearms industries.

BASIS OF PRESENTATION

The financial statements were prepared to report the significant assets, liabilities, net cost of operations, changes in net position, budgetary resources and custodial activity of ATF. The financial statements have been prepared from the books and records of ATF in conformity with generally accepted accounting principles (GAAP), and the form and content for entity financial statements specified by the Office of Management and Budget (OMB) in OMB Bulletin 97-01. ATF's accounting policies are summarized in this note. GAAP for Federal entities are the standards prescribed by the Federal Accounting Standards Advisory Board (FASAB), which was recently designated the official accounting standards-setting body for the Federal Government by the American Institute of Certified Public Accountants. These statements are different from the financial reports, also prepared by ATF, pursuant to OMB directives that are used to monitor and control ATF's use of budgetary resources.

Entity financial resources of ATF present only those resources which will be consumed in current or future operating cycles, while the non-entity categories contain resources relating to ATF fiduciary activities of revenue collection.

The Bureau records entity accounting transactions on both an accrual basis of accounting as well as a budgetary basis. Under the accrual method, revenue is recognized when earned and expenses are recognized when a liability is incurred, without regard to receipt or payment of cash. Budgetary accounting facilitates compliance with legal constraints and controls over the use of Federal funds.

BUDGETS AND BUDGETARY ACCOUNTING

Congressional appropriations provide financing sources on an annual and no-year basis. These appropriations finance operating expenses and the purchase of property and equipment as specified by law. Appropriations are also received to meet specific program objectives. The Bureau's activities are funded by the following:

- 20-9-1000 - Salaries and Expenses
Appropriation
- 20-9-1000 - Salaries and Expenses
Reimbursable Authority
- 20-X-1000 - No-year Appropriation
- 20-8/9-1000 - Prior-year Appropriations
- 20-9/1-1000 - Y2K Contingent Emergency
Fund
- 20-9-1000 - Appropriation Transfers
- 20-X-1003 - Laboratory Facilities
- 20-X-8526 and 20-X-8528 - Violent Crime
Trust Funds

All of these appropriations and the related gross costs, revenues and net cost as shown in the Statement of Net Cost are in federal budget functional classification 750, Administration of Justice.

The accompanying financial statements of ATF include the accounts of the above funds under ATF control.

EXCHANGE REVENUE, NON-EXCHANGE REVENUE AND OTHER FINANCING SOURCES

EXCHANGE REVENUES

Exchange revenues are inflows of resources to a Government entity that the entity has earned. They arise from exchange transactions, which occur when each party to the transaction sacrifices value and receives value in return. That is, exchange revenue arises and is recognized when a Government entity provides something of value to the public or another Government entity at a price.

ATF provides a number of services including enforcement, training and professional development, and science and information technology that are provided to other government agencies on reimbursable agreements. ATF does not make goods to order.

Most of the funds received by ATF on a reimbursable basis result from the Bureau's agreement with the U.S. Department of State to train explosives-detecting canines for foreign countries. The canines will be used overseas in the war against terrorism and protecting American travelers abroad. Similarly, ATF is funded on a reimbursable basis for activity related to drug enforcement activity through the Interagency Crime and Drug Enforcement (ICDE) program formerly managed by the Justice Department.

NON-EXCHANGE REVENUES

Non-exchange revenues are inflows of resources that the Government demands or receives by donation. Such revenue is recognized when a specifically identifiable, legally enforceable claim to resources arises, to the extent that collection is probable (more likely than not) and the amount is reasonably estimable.

Non-exchange revenue is reported on the modified cash basis of accounting and is recognized when taxes are remitted or assessed. Refunds are also reported on the modified cash basis of accounting. Liabilities for approved but unpaid refunds of tax payments are accrued at year end.

As an agent of the Federal Government and as authorized by 26 U.S.C. § 6301, ATF collects excise taxes from the alcohol, tobacco, firearms and ammunition industries, as well as permit and license fees. In addition, Special Occupational Taxes are collected from businesses, including producers, distributors and retailers of liquor, dealers in industrial alcohol, and certain firearms businesses. ATF receives no dedicated collections.

Substantially all of the taxes and fees collected by ATF net of related refund disbursements are remitted to the Department of the Treasury General Fund. The Department of the Treasury further distributes this revenue to Federal agencies in accordance with various laws and regulations. Revenue collected from firearms and ammunition taxes is transferred directly to the Interior Department's Federal Aid to Wildlife Restoration Fund under provisions of the Pittman-Robertson Act of 1937 to support their mission. ATF disburses refunds to taxpayers and license applicants as well as monthly payments to the Governments of Puerto Rico and the Virgin Islands to cover over (rebate) excise taxes collected for alcohol (mostly rum) produced in these territories and used by U.S. producers to support economic revitalization. The amount covered over (rebated) to these governments is based on the consolidation of figures obtained from the U.S. Customs Service, Census Bureau, domestic distilleries and the Puerto Rico field office. The Bureau also refunds excise taxes to taxpayers who use distilled spirits in the manufacture of non-beverage products such as medicines, food products and flavorings.

Receivables are established through assessments of taxes and the imposition of penalties and interest. ATF recognizes revenue when accounts receivable are established.

FINANCING SOURCES

Financing sources provide inflows of resources during the reporting period and include appropriations used and financing imputed with respect to any cost subsidies. Unexpended appropriations are recognized separately in determining net position but are not financing sources until used.

ATF receives the majority of the funding needed to support the Bureau through congressional appropriations. ATF receives both annual and no-year appropriations that may be used, within statutory limits, for operating and capital expenditures (primarily equipment, furniture and furnishings).

Appropriations are recognized as a financing source at the time the related program or administrative expense is incurred. Appropriations expended for property are recognized as a financing source when the asset is consumed in operations (depreciation).

Costs financed by other Federal entities on behalf of ATF are recognized as imputed financing sources as required by SFFAS No. 5, "Accounting for Liabilities of the Federal Government."

Other financing sources result from distributions ATF receives from the Treasury Asset Forfeiture Fund. These resources finance the Youth Crime Gun Interdiction Initiative and other law enforcement initiatives, including seizing and forfeiting property of parties engaged in unlawful activities.

ASSETS

Entity intragovernmental assets include the fund balance with Treasury, amounts due from other Federal agencies under contractual agreements or other arrangements for services or activities performed by ATF and prepayments for authorized goods and services for Treasury's working capital fund. Entity assets include property and equipment, as well as other assets comprised of advances and amounts due from employees or vendors.

Non-entity intragovernmental assets also include the fund balance with Treasury as well as accounts receivable due from Treasury to disburse approved refund claims of excise taxes and fees. Non-entity assets consist principally of receivables for excise taxes and fees which are to be distributed to the Treasury, other Federal agencies and other governments. None of the non-entity assets are considered financing sources (revenue) available to offset operating expenses of ATF.

FUND BALANCE WITH TREASURY AND CASH

The Department of the Treasury processes the Bureau's cash receipts and disbursements. Entity fund balance with Treasury and cash are primarily appropriated funds available to pay current liabilities and to finance authorized purchase commitments. Non-entity fund balance with Treasury is primarily escrow accounts designated to finance offers-in-compromise and cash bonds held in lieu of corporate surety bonds guaranteeing payment of taxes.

PREPAYMENTS

Prepayments are payments made to cover certain periodic expenses before those expenses are incurred. In accordance with Public Law 91-614, ATF participates in the Treasury Department's Working Capital Fund activity, for which it receives services on a reimbursable basis. Payments made in advance are authorized for services that have been deemed as more advantageous and more economical when provided centrally. The services provided include those for Telecommunications, Payroll/Personnel Systems, Printing, and other central services. The amount reported represents the balance available at the end of the fiscal year after charges/expenses incurred by the Fund are deducted.

PROPERTY AND EQUIPMENT

The General Services Administration provides the land and buildings in which ATF operates and charges ATF rent that approximates the commercial rent for similar properties. At September 30, 1999, ATF was in the process of constructing a laboratory in College Park, Md. and a canine training facility and kennel in Front Royal, Va. These costs are capitalized as construction in progress. ATF has no deferred maintenance or cleanup costs.

Equipment purchased or donated with a cost or fair market value greater than or equal to \$25,000 per unit and a useful life of two years or more is capitalized at the lower of cost or fair market value and depreciated. Other equipment is expensed when purchased. Normal repairs and maintenance are charged to expense as incurred.

Equipment with a unit price less than \$25,000 that is purchased in bulk, totaling \$250,000 or greater, for special projects or start up activities is also capitalized. Bulk purchases are grouped according to commodity type and depreciated using the same methodology as single capitalized purchases.

LIABILITIES

Liabilities represent the amount of monies or other resources that are likely to be paid by ATF as the result of a transaction or event that has already occurred. However, no liability can be paid by ATF absent an appropriation. Liabilities for which an appropriation has not been enacted are classified as Liabilities Not Covered by Budgetary Resources and there is no certainty that an appropriation will be enacted. Also, liabilities of ATF arising from other than contracts can be abrogated by the Government, acting in its sovereign capacity.

Intragovernmental liabilities consist of amounts payable to the Treasury for collections on excise tax, fee receivables, payables to other Federal agencies and accrued FECA charges. Liabilities also consist of amounts due to be refunded to taxpayers, as well as amounts held in escrow for offers-in-compromise and cash bonds held in lieu of corporate surety bonds guaranteeing payment of taxes.

ANNUAL, OTHER AND SICK LEAVE

Annual and other types of leave are accrued as earned, and the accrual is reduced as leave is taken. The balance reflects current pay rates. Sick leave is expensed as taken.

FEDERAL EMPLOYEE COMPENSATION ACT

The Federal Employees' Compensation Act (FECA) provides income and medical cost protection to covered Federal civilian employees injured on the job and employees who have incurred a work-related injury or occupational disease. The future workers' compensation estimates were generated from an application of actuarial procedures developed to estimate the liability for FECA benefits. The actuarial liability estimates for FECA benefits include the expected liability for death, disability, medical, and miscellaneous costs for approved compensation cases. The liability is determined using the paid losses extrapolation method which is calculated over the next 37-year period. This method utilizes historical benefit payment patterns related to a specific incurred period to predict ultimate payments related to that period.

LITIGATION CONTINGENCIES AND SETTLEMENTS

Probable and estimable unsettled litigation and claims against ATF are recognized as a liability and expense for the full amount of the expected loss. Expected litigation and claim losses include settlements to be paid from the Treasury Judgment Fund (Judgment Fund) on behalf of ATF and settlements to be paid from Bureau appropriations as required by Interpretation of Federal Financial Accounting Standards No. 2.

Settlements paid from the Judgment Fund for ATF are recognized as an expense and imputed financing source as required by Interpretation No. 2.

RETIREMENT PLAN

Most ATF employees hired prior to January 1, 1984 participate in the Civil Service Retirement System (CSRS), to which ATF contributes 8.51 percent of basic pay (9.01 percent for those personnel classified as law enforcement agents) and the employee contributes 7.25 percent (7.75 percent for those personnel classified as law enforcement agents) for a total contribution rate of 15.76 percent. On January 1, 1984, the Federal Employees' Retirement System (FERS) went into effect pursuant to Public Law 99-335. Employees hired after December 31, 1983 are automatically covered by FERS and Social Security. For most employees hired after December 31, 1983, ATF also contributes the employer's matching

share of Social Security. For FERS basic benefit, the employee contributes 1.05 percent of basic pay (1.55 percent for those personnel classified as law enforcement agents) while ATF contributes 10.7 percent (23.3 percent for those personnel classified as law enforcement agents) for a total contribution of 11.75 percent in FY 1999 (24.85 percent for those personnel classified as law enforcement agents). The cost of providing a FERS basic benefit as provided by OPM is equal to the amounts contributed by ATF and the employees because the plan is fully funded.

All employees are eligible to contribute to the Thrift Savings Plan (TSP). For those employees participating in the FERS, a TSP account is automatically established, and ATF makes a mandatory 1 percent contribution to this account. In addition, ATF makes matching contributions, ranging from 1 to 4 percent, for FERS eligible employees who contribute to their TSP accounts. Matching contributions are not made to the TSP accounts established by CSRS employees.

ATF recognized the full cost of providing future pension and other retirement benefits (ORB) for current employees as required by SFFAS No. 5. Full cost includes pension and ORB contributions paid out of Bureau appropriations and costs financed by the Office of Personnel Management (OPM). Reporting amounts such as plan assets, accumulated plan benefits, or unfunded liabilities, if any, is the responsibility of the OPM.

USE OF ESTIMATES

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amount of assets and liabilities, as well as the disclosure of contingent liabilities at the date of the financial statements, and the amount of revenues and costs reported during the period. Actual results could differ from those estimates.

NOTE 2**Fund Balance with Treasury & Cash**

Fund balance with Treasury and cash as of September 30, 1999 consisted of the following:

FY 1999

(In Thousands)

Entity:	Obligated	Unobligated		Total
		Available	Restricted	
Trust Funds	\$ 17,961	\$ 7,939	\$ -	\$ 25,900
Appropriated Funds	135,214	28,550	-	163,764
Other Fund Types	-	1,868	-	1,868
Fund Balance	<u>\$ 153,175</u>	<u>\$ 38,357</u>	<u>\$ -</u>	<u>\$ 191,532</u>
Cash		\$ 2,291	\$ -	\$ 2,291
Non-Entity:				
Fund Balance			<u>\$ 2,520</u>	<u>\$ 2,520</u>

Other fund types include proceeds from the sales of surplus vehicles and amounts held in suspense accounts.

Cash available for ATF use represents imprest and agent cashier funds. The agent cashier funds are used to finance the purchase of evidence and information from informants in open ATF investigations and enforcement operations.

Non-entity fund balance consists of offers-in-compromise held in escrow accounts representing reduced payments received by ATF from parties assessed taxes, penalties, interest and fees awaiting resolution.

Non-entity fund balance also consists of cash bonds received (money orders or cash) in lieu of corporate surety bonds guaranteeing payment of taxes. These amounts are reflected as liabilities covered by budgetary resources, other liabilities on the Balance Sheet. These funds are restricted solely for the purposes described and are unavailable to fund ATF operations.

NOTE 3

Accounts Receivable

Accounts receivable as of September 30, 1999 were as follows:

(In Thousands)	FY 1999	
	Entity	Non-Entity
Intragovernmental Receivables	\$ 27,849	\$ 13,044
Receivables:		
Taxes/Fees		\$ 14,041
Interest		3,583
Penalties		2,054
Restitution Cases		196
		<u>19,874</u>
Less:		
Allowance for Uncollectible Accounts		<u>(18,461)</u>
Receivables, Net		<u>\$ 1,413</u>

Intragovernmental entity receivables represent amounts due under reimbursable agreements with Federal entities for services provided by ATF.

Intragovernmental non-entity receivables consist principally of funds due to ATF from the Treasury to refund certain excise tax and license fee claims.

An allowance for receivables deemed uncollectible was not established for these amounts because monies due from other Federal entities are considered fully collectible.

Non-entity receivables consist principally of outstanding excise and Special Occupational Taxes, fees, fines, penalties and interest that have been assessed and remain unpaid at year end.

An allowance for uncollectible amounts has been recognized for non-entity receivables. The allowance is based on an analysis of individual receivable balances, historical collections and the application of estimated collectible amounts to categories of receivable balances at year end. As of September 30, 1999, approximately \$13.5 million of the allowance was based on cases that ATF had entered into negotiations for payment through offers-in-compromise, which had not yet been finalized.

NOTE 4

Property and Equipment

Property and equipment consisted of the following as of September 30, 1999:

FY 1999 <i>(In Thousands)</i>	Service Life (Years)	Acquisition Value	Accumulated Depreciation	Net Book Value
ADP Software	3	\$ 6,232	\$ 2,395	\$ 3,837
Equipment	2-10	121,652	59,795	61,857
Leasehold Improvements		8,332	4,627	3,705
Assets Under Capital Lease		26,327	13,106	13,221
Construction in Progress		8,156	-	8,156
Total Property & Equipment		<u>\$ 170,699</u>	<u>\$ 79,923</u>	<u>\$ 90,776</u>

Depreciation and amortization are calculated using the straight-line method. Leasehold improvements are amortized over the lesser of the life of the lease or useful life of the asset. Assets under capital lease are capitalized at the lesser of present value of future payments or fair market value at the time of acquisition and depreciated under the guidelines of the respective property categories or the life of the lease, whichever is shorter. Construction in progress represents initial costs of developing Bureau requirements for the construction of a new headquarters building, the laboratory in College Park, Md. and the canine training facility and kennel in Front Royal, Va. There are no restrictions on the use or convertibility of property and equipment.

NOTE 5

Other Assets

Other assets consisted of the following as of September 30, 1999:

<i>(In Thousands)</i>	FY 1999
	<u>Entity</u>
Other Assets:	
Advances	\$ 282
Due From Employees	<u>107</u>
Total Other Assets	<u>\$ 389</u>

Advances and amounts Due From Employees are cash outlays made to its employees, contractors, grantees or others to cover a part or all of the recipients' anticipated expenses or as advance payments for the costs of goods and services the entity receives.

NOTE 6**Other Liabilities**

Other Liabilities Covered by Budgetary Resources includes current amounts held for offers-in-compromise, cash bonds, and deposit fund amounts held in escrow.

NOTE 7**Leases****CAPITAL LEASES**

For Assets Under Capital Lease, the acquisition value of machinery and equipment, which represents computer hardware, laboratory and other office equipment, is \$21,602. The remaining \$4,725 is the acquisition value of related computer software.

Future minimum lease payments due for capital leases on machinery, equipment and related computer software as of September 30, 1999 were as follows:

<i>(In Thousands)</i> Fiscal Year	<u>Total</u>
2000	\$ 8,367
2001	2,235
2002	44
2003	34
2004	15
Future Lease Payments	<u>\$10,695</u>
Less: Imputed Interest	<u>(560)</u>
Net Capital Lease Liability	<u>\$10,135</u>
Liabilities not covered by budgetary resources	<u>\$10,135</u>

In FY 1998, ATF entered into a capital lease, modernizing its Information Technology through Bureau-wide deployment of its Enterprise Systems Architecture. Under this capital lease agreement, the contractor is providing computer and related software for ATF's strategic and day-to-day business requirements. In addition to this major program, the Bureau has entered into a number of smaller capital lease agreements for laboratory and other office equipment.

Assets acquired by capital lease agreements are reported on the accompanying Balance Sheet based on the lesser of the present value of the future minimum lease payments or the fair market value of the asset. Imputed interest rates range from 3.9 to 11.5 percent.

The capital lease liability is expected to be funded from future sources and is presented on the Balance Sheet, as a component of other liabilities not covered by budgetary resources.

OPERATING LEASES

The Bureau leases various copiers, fax machines and vehicles under agreements accounted for as operating leases. Future commitments under operating leases for equipment as of September 30, 1999 were as follows:

*(In Thousands)***Fiscal Year****Total**

2000	\$ 596
2001	248
2002	143
2003	25
2004	4
Total Future Lease Payments	<u>\$ 1,016</u>

NOTE 8**Contingent Liabilities**

A loss contingency is an existing condition, situation, or set of circumstances involving uncertainty as to possible loss to an entity. The uncertainty should ultimately be resolved when one or more future events occur or fail to occur. The likelihood that the future event or events will confirm the loss or the incurrence of a liability can range from probable to remote. SFFAS No. 5 and SFFAS No. 12 contain the criteria for recognition and disclosure of contingent liabilities.

ATF is a party to various administrative proceedings, legal actions, and claims brought by or against it. Most financial liabilities resulting from litigation and claims against ATF are payable from the permanent judgment appropriation established by 31 U.S.C. Section 1304 Treasury Judgment Fund (Judgment Fund). In the opinion of the Bureau's management and legal counsel, the ultimate resolution of these proceedings, actions and claims will not materially affect the financial position or results of operation of ATF. At September 30, 1999, ATF legal counsel was processing approximately 223 of these actions against the Bureau. ATF identified and accrued, at September 30, 1999, \$10.8 million as probable liability on the Balance Sheet. The September 30, 1999 probable liability results from the following types of claims pending resolution:

- Administrative tort and employee claims in process against ATF for which counsel has identified \$69,000 as probable liability, of that \$21,000 would affect ATF appropriations and \$48,000 would be referred to the Financial Management Services (FMS) for payment from the Judgment Fund. When any administrative tort claim of \$2,500 or greater is allowed, it is referred to the FMS for payment from the Judgment Fund;
- Attorney fee applications/petitions for which counsel has identified \$529,000 as probable liability, of that \$524,000 would affect ATF appropriations and \$5,000 would be referred to the FMS for payment from the Judgment Fund;
- Lawsuits filed under the Federal Tort Claims Act for which counsel identified \$10.0 million as probable liability that would be referred to the FMS for payment under the Judgment Fund;
- In FY 1999, counsel identified \$202,000 as probable liability relating to Freedom of Information Act lawsuits that would be referred to the FMS for payment under the Judgment Fund.

ATF counsel identified at September 30, 1999, \$31.0 million as reasonably possible liability resulting from the following types of claims pending resolution:

- Administrative tort and employee claims in process against ATF for which counsel has identified \$5.6 million as reasonably possible; \$8,200 would affect ATF appropriations and \$5.6 million would be referred to the FMS for payment from the Judgment Fund;
- Contract, patent infringement and tax claims lawsuits of which counsel identified \$1.5 million as reasonably possible liability that would be referred to the FMS for payment from the Judgment Fund;
- Personnel and EEO cases for which counsel has identified \$20.0 million as reasonably possible liability that would be referred to the FMS for payment from the Judgment Fund; and,
- Lawsuits filed under the Federal Tort Claims Act which counsel identified \$3.9 million as reasonably possible liability that would be referred to the FMS for payment from the Judgment Fund.

Public Law 101-510, enacted November 5, 1990, requires Federal agencies to automatically cancel obligated balances on annual appropriated funds after specific future time periods, even though the agency remains contingently liable to pay valid contractor invoices for services received under contracts signed in the year of obligation. Legitimately incurred obligations that have not been paid at the time an appropriation is canceled must be paid from current appropriations available for the same purpose. ATF canceled approximately \$2.1 million of obligations relating to appropriations canceled at the end of FY 1999. ATF estimates obligations relating to canceled appropriations that will be paid from future appropriations will not exceed \$1.0 million in any fiscal year.

NOTE 9

Net Position

Net position of the Bureau as of September 30, 1999 was as follows:

FY 1999 <i>(In Thousands)</i>	Trust Funds	Appropriated Funds	Other	Total
Unexpended Appropriations:				
Unobligated - Available	\$ 7,936	\$ 28,784	\$ -	\$ 36,720
Unobligated - Unavailable	-	-	-	-
Undelivered Orders	14,480	129,096	-	143,576
Total Unexpended Appropriations	22,416	157,880	-	180,296
Cumulative Results of Operations	16,340	(68,365)	-	(52,025)
Net Position	\$ 38,756	\$ 89,515	\$ -	\$ 128,271

Unexpended appropriations represent the amount of spending authorized as of year-end that is unliquidated or unobligated and which has not lapsed, been rescinded, or been withdrawn. No-year appropriations remain available for obligation until expended. Annual appropriations remain available for upward or downward adjustment of obligations until expired.

Cumulative results of operations are the net results of operations since inception plus the cumulative amount of prior period adjustments.

NOTE 10**Earned Revenue**

Earned revenue represents amounts earned for services provided by the Bureau to other government agencies under reimbursable agreements. ATF has entered into a variety of reimbursable agreements to provide services such as enforcement, training and professional development, science and information technology, and the management of common areas. These agreements are with agencies such as the Secret Service, the Department of Justice, the National Drug Intelligence Center, the Department of Housing and Urban Development, the Department of State, the Environmental Protection Agency, and other components of the Department of the Treasury. ATF maintains a reimbursable agreement with the governments of Puerto Rico and the Virgin Islands which stipulates that any expenses incurred by the Department of the Treasury at these sites are to be fully offset from tax collections related to distilled spirits production or manufacture in those territories.

NOTE 11**Imputed Financing**

Imputed financing for the year ended September 30, 1999 included the following:

<i>(In Thousands)</i>	<u><i>FY 1999</i></u>
Funds paid by the Judgment Fund	\$ 806
Future pension and other retirement benefits financed by OPM	<u>23,494</u>
Total Imputed Financing	<u>\$ 24,300</u>

Imputed financing sources represent amounts paid in FY 1999 by the Judgment Fund to settle lawsuits and claims against the Bureau. Additional imputed financing is recognized for amounts financed in FY 1999 by OPM to provide future pension and other retirement benefits to current ATF employees.

The cost of providing a CSRS benefit is more than the amounts contributed by ATF and its employees. In accordance with SFFAS No. 5, bureaus are required to report the full cost of providing pension benefits to include the cost financed by OPM. This additional expense totaling \$13.5 million is included as an expense and as an imputed financing source in the financial statements for FY 1999.

ATF does not report CSRS assets, FERS assets, accumulated plan benefits or unfunded liabilities, if any, applicable to retirement plans because the accounting for and reporting of such amounts is the responsibility of OPM. Total contributions by ATF of \$38.3 million related to these plans were made for FY 1999. OPM, rather than ATF, reports liabilities for future payments to retired employees who participate in the Federal Employees Health Benefits Program (FEHBP) and Federal Employees Group Life Insurance (FEGLI) Program. In accordance with SFFAS No. 5, ATF is required to report the full cost of providing other retirement benefits (ORB). Currently, ATF does not recognize expenses or contribute funds for the cost to provide health benefits and life insurance to its retirees. The FY 1999 FEHBP cost factor applied to a weighted average number of employees enrolled in the FEHBP is \$2,731, which is provided by OPM. The FEHBP ORB amount totaling \$10.0 million is included as an expense and imputed financing source in ATF's financial statements for FY 1999. The FY 1999 FEGLI cost factor for employees enrolled in the FEGLI program, as provided by OPM, is .02 percent of their basic pay. The FEGLI ORB amount totaling \$44,000 is included as an expense and imputed financing source in ATF's financial statements for FY 1999.

Total imputed financing sources for FY 1999 equal about \$23.5 million (the sum of \$13.5 million for pension expense, \$10.0 million for FEHBP ORB and \$44,000 for FEGLI ORB).

ATF's contributions for active employees who participate in the FEHBP were \$11.5 million for FY 1999. ATF's contributions for active employees who participate in the FEGLI programs were \$481,000 for FY 1999.

In addition to requiring ATF to record the full cost for pensions and ORB, SFFAS No. 5 requires recognition of an expense and liability for other postemployment benefits (OPEB), which includes all types of benefits to former or inactive employees, their beneficiaries, and covered dependents. ATF recognizes an expense and liability for OPEB when a future outflow or other sacrifice of resources is probable and measurable on the basis of events occurring on or before the end of the fiscal year. The OPEB amount totaling \$24,000 is included as an expense and liability in ATF's financial statements for FY 1999.

NOTE 12

Budgetary Resource Information

Budgetary resource information as of September 30, 1999 consisted of the following:

FY 1999

(In Thousands)

Net Amount of Budgetary Resources Obligated for Undelivered Orders at Year End	\$ 156,330
Available Borrowing and Contract Authority at Year End	\$ -
Adjustments During the Reporting Period to Budgetary Resources Available at the Beginning of the Year	\$ 51,007
Amount of Contributed Capital Received During the Reporting Period	\$ -

Adjustments during the period included recovery of prior year obligations and cancellation of FY 1994 appropriations in the amount of \$3.952 million. Based on reviews conducted by ATF at mid-year and year-end, recoveries include any open obligation where all goods and services were received and final payments made were liquidated. On September 30th of the 5th fiscal year after the period of availability for obligation of an annual appropriation (FY 1994), the account is closed and funds returned to Treasury's general fund.

NOTE 13

Other Financing Sources

Other Financing Sources consist of funds received by ATF from Treasury's Executive Office for Asset Forfeiture (EOAF) to carryout the Bureau's role as a law enforcement entity supporting law enforcement initiatives. EOAF, also known as the Treasury Asset Forfeiture Fund, was established pursuant to the Treasury Forfeiture Fund Act of 1992 and 31 U.S.C. 9703. The Fund serves as the Department's central funding source for financing asset seizure and forfeiture law enforcement initiatives. Although the Fund is the Department's central funding source for these initiatives, EOAF cannot undertake asset seizure and forfeiture. Only law enforcement agencies, including ATF, are lawfully authorized to perform these duties. Consequently, EOAF distributes a portion of the Fund's resources to ATF.

The difference between Other Financing Sources on the Statement of Changes in Net Position and Other Financing Sources on the Statement of Financing, in the amount of \$7.364 million represents items that were capitalized as property and equipment on the Balance Sheet. These amounts are represented on the Statement of Financing in costs capitalized on the Balance Sheet.

NOTE 14

Non-exchange Revenue

As of September 30, 1999, non-exchange revenue collections and refunds consisted of the following:

<i>(In Thousands)</i>					
Tax Year	<i>Cumulative Cash Collections Received FY 1999</i>	<i>1999</i>	<i>1998</i>	<i>1997</i>	<i>Prior Years</i>
Excise Taxes	\$12,024,863	\$8,811,181	\$3,212,528	\$467	\$687
Fees and Licenses	111,276	103,848	7,161	171	96
Fines, Penalties, Interest and Other Revenue	446	339	21	56	30
Total Non-exchange Revenue Collections	<u>\$12,136,585</u>	<u>\$8,915,368</u>	<u>\$3,219,710</u>	<u>\$694</u>	<u>\$813</u>

<i>(In Thousands)</i>					
Tax Year	<i>Refunds Disbursed FY 1999</i>	<i>1999</i>	<i>1998</i>	<i>1997</i>	<i>Prior Years</i>
Excise Taxes	\$264,007	\$133,548	\$126,372	\$3,048	\$1,039
Fees and Licenses	502	346	96	49	11
Fines, Accounts Receivable and Other Revenue	-	-	-	-	-
Total Non-exchange Revenue Refunds	<u>\$264,509</u>	<u>\$133,894</u>	<u>\$126,468</u>	<u>\$ 3,097</u>	<u>\$1,050</u>

NOTE 15**Analyses of Changes in Seized and Forfeited Property**

ATF uses the Department of Justice's Consolidated Asset Tracking System (CATS) to support its fiduciary stewardship responsibilities as they relate to seized and forfeited property. ATF is a full participating member of the Department of the Treasury Forfeiture Fund (TFF).

Accounting methodologies for seized and forfeited property reflect standards published in SFFAS No. 3, Accounting for Inventory and Related Property; OMB Bulletin No. 97-01; and Departmental accounting policy. All property seized or forfeited by ATF for Title 18 forfeiture is accounted for in the financial statements of the TFF. Seized and forfeited property activity is also reported in the notes to the TFF financial statements.

All contraband (prohibited) property such as illegal firearms, ammunition, and explosives which no longer have intrinsic economic value and will not be reintroduced into the open marketplace are subject to destruction. ATF does maintain fiduciary stewardship responsibility for contraband property from time of receipt through final disposition.

The following schedules represent an analysis of the changes in seized and forfeited property holdings for the year ended September 30, 1999. ATF reports year-end seized and forfeited property balances based on the most recent information from the United States Attorneys and the Federal Courts on the legal status of this property. Net adjustments to previously recorded balances result primarily from the receipt of updated information on the legal status of this property.

FY 1999 Analysis of Changes in Seized Property
(Number of Transactions)

	<i>Balance 10/1/98</i>	<i>Net Adjustments</i>	<i>Seizures</i>	<i>Cash Adjustments</i>	<i>Remissions</i>	<i>Other Disposals</i>	<i>Forfeitures</i>	<i>Balance 9/30/99</i>
General Property - Prohibited Units	20,950	(497)	10,142	-	(314)	(30)	(5,216)	25,035

FY 1999 Analysis of Disposition of Forfeited Property
(Number of Transactions)

	<i>Balance 10/1/98</i>	<i>Net Adjustments</i>	<i>Forfeitures</i>	<i>Deposits</i>	<i>Sales</i>	<i>Transfers</i>	<i>Transfers to Third Parties</i>	<i>Destructions</i>	<i>Balance 9/30/99</i>
General Property - Prohibited Units	2,318	(132)	5,216	-	-	(112)	(29)	(4,558)	2,703



Required Supplementary Information

Budgetary Information (Unaudited)

Budgetary Information as of September 30, 1999 consisted of the following:

FY 1999

(In Thousands)

	<i>Appropriated Funds</i>	<i>Revolving Funds</i>	<i>Trust Funds</i>	<i>Other Fund Types</i>	<i>Total</i>
Budgetary Resources:					
Budget Authority	\$ 556,753	\$ -	\$ 16,000	\$ -	\$ 572,753
Unobligated Balance - Beginning of Period	18,902	-	8,670	-	27,572
Net Transfers, Prior Year Balance	(925)	-	-	-	(925)
Spending Authority from Offsetting Collections	41,196	-	-	-	41,196
Adjustments, Anticipated for Rest of Year	43,799	-	3,256	-	47,055
Total Budgetary Resources	<u>\$ 659,725</u>	<u>\$ -</u>	<u>\$ 27,926</u>	<u>\$ -</u>	<u>\$ 687,651</u>

Status of Budgetary Resources:

Obligations Incurred	\$ 630,479	\$ -	\$ 19,990	\$ -	\$ 650,469
Unobligated Balances - Available	16,620	-	4,366	-	20,986
Unobligated Balances - Not Available	12,626	-	3,570	-	16,196
Total Status of Budgetary Resources	<u>\$ 659,725</u>	<u>\$ -</u>	<u>\$ 27,926</u>	<u>\$ -</u>	<u>\$ 687,651</u>

Outlays:

Obligations	\$ 630,479	\$ -	\$ 19,990	\$ -	\$ 650,469
Less: Spending Authority from Offsetting Collections and Adjustments	(88,946)	-	(3,257)	-	(92,203)
Obligated Balance, Net-Beginning of the Period	147,978	-	20,443	-	168,421
Less: Obligated Balance, Net-End of the Period	(136,809)	-	(17,964)	-	(154,773)
Total Outlays	<u>\$ 552,702</u>	<u>\$ -</u>	<u>\$ 19,212</u>	<u>\$ -</u>	<u>\$ 571,914</u>

Claims for Refunds not Accrued (Unaudited)

At September 30, 1999, ATF had approximately \$24.6 million in refund claims under audit by the Tax Processing Center and the Technical Services offices. Refunds are payable upon approval.

Abatements/Write-offs (Unaudited)

ATF had approximately \$1.6 million of assessments the entity still has statutory authority to collect at the end of the period, but has no future collection potential and are therefore defined as write-offs.



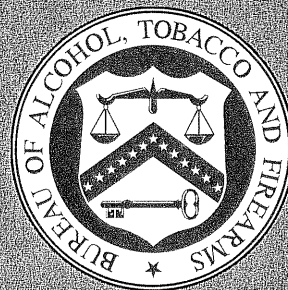
Principal Officers of ATF

Director John W. Magaw
Deputy Director Bradley A. Buckles
Chief Counsel John J. Manfreda
Assistant Director (Alcohol and Tobacco Programs) Arthur J. Libertucci
Assistant Director (Field Operations) Andrew L. Vita
Assistant Director (Firearms, Explosives and Arson Programs) Jimmy Wooten
Assistant Director (Inspection) Richard J. Hankinson
Assistant Director (Liaison and Public Information) David L. Benton
Assistant Director (Management)/CFO William T. Earle
Assistant Director (Science and Technology)/CIO Patrick R. Schambach
Assistant Director (Training and Professional Development) Gale D. Rossides

For additional information contact:

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Bureau of Alcohol, Tobacco and Firearms
650 Massachusetts Avenue, N.W.
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